J.P.Morgan

Australia and New Zealand - Weekly Prospects

Summary

- The **RBA** decision tomorrow is the obvious highlight of a busy week ahead, with a slew of economic indicators scheduled for release. The data includes inventories and company profits, private credit, retail sales, and residential building approvals. On the rate decision, the RBA will deliver another 25bp hike, the third in as many months. At the current 3.5%, the cash rate is too low for an economy that, in the words last week of the Deputy Governor, "has held up much better than had been expected". To put it another way, the storm has passed, so the catastrophe insurance no longer is needed. Our call for a hike tomorrow was reaffirmed last week by data showing a surprise bounce in car sales and confirmation that firms had upgraded their investment intentions. Investment spending unexpectedly dropped in 3Q, but the improving investment outlook heralds a "new era of prosperity", one that will, however, be blighted by capacity constraints and emerging skill shortages. The resulting inflation risks mean the RBA will continue tightening throughout 2010, as policy approaches a stance closer to neutral.

- It was a quiet week last week in **New Zealand**, the highlight being the NBNZ business survey. Business confidence dropped in November, but the outlook improved. Between now and the RBNZ's next OCR announcement (Dec. 10), the data in New Zealand slows to a mere trickle. We expect the RBNZ will maintain its neutral policy stance in December, reiterating that the OCR will remain "at" the current level until 2H10. Housing market activity and household spending may have picked up, but business spending remains weak, private sector debt elevated, credit growth subdued, and unemployment is still rising. The RBNZ, therefore, has scope to sit on the policy sidelines for the time being, and not deliver the first hike until mid-2010.

- The recent **global** data flow shows solid growth in industrial activity, rising consumer spending, and a firming in household and business sentiment—developments consistent with our view that a synchronized global upturn will be sustained into 2010. There remains, however, an important unanswered question: Will firms complete the shift away from retrenchment and raise employment and capital spending next year? Our optimism on this front has been challenged by the disappointment in October readings from the US and US regional business surveys that suggest that the manufacturing ISM survey will fall this week (to 53.5). However, the broad sweep of upbeat global indicators, notably in Asia, and the encouraging news from US initial jobless claims, leave us comfortable about near-term growth trends.

- Our forecast has emphasized the importance of the **positive feedback loop** between financial markets, confidence, and spending in promoting growth. While the primary downside risk is adverse economic developments that might undermine this process, the events in Dubai are a reminder that there are also financial sector risks. The Dubai announcement created a shock wave and raised concerns over the exposure of international banks to Dubai. The restructuring of one of the key quasi-sovereign entities in Dubai could have major effects on the domestic banking system, resulting in a chain of rating downgrades that in turn could dampen the recovery of the UAE economy as banks rein in credit growth. The announcement also will have large ripple effects on the regional political landscape and weaken Dubai's political weight within the UAE.

This week's highlight

The RBA decision Tuesday is the clear highlight in a busy week. We forecast another 25bp hike - the third straight - as the RBA continues to step away from "emergency" policy settings.

November 30, 2009

Contents

Data and event previews 2

Feature charts 4

Research note 5
Determined RBA moving ever closer to emergency exit

Commentaries
Australia 7
New Zealand 10
GDW Global Essay 12

The JPMorgan view
Global markets 15
AUD and NZD commentary 18

Forecasts
Global outlook summary 22
Global central bank watch 23
Australian economy 24
New Zealand economy 25

Data release calendars
Australia and New Zealand 26
Global data diary 27

JPMorgan Australia Ltd., Sydney
www.morganmarkets.com

Stephen Walters
(61-2) 9220-1599
stephen.b.walters@jpmorgan.com

Helen Kevans
(61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Ben Jarman
(61-2) 9220-1669
ben.k.jarman@jpmorgan.com

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Data and event previews - Australia and New Zealand

Date	Time [(a)]	Data/event	Forecast JPMorgan	Forecast Consensus [(b)]	*Previous*
Monday, November 30	10.30am	TD Securities Inflation Gauge (%m/m, Nov.)	**na**	na	*-0.3*
Monday, November 30	11.00am	Aust. HIA new home sales (%m/m, Oct.)	**na**	na	*-4.5*
Monday, November 30	11.30am	Aust. private sector credit (%m/m, Oct.)	**0.2**	0.2	*-0.2*
Monday, November 30	11.30am	Aust. company profits (%q/q, 3Q)	**-2.0**	0.0	*-7.8*
Monday, November 30	11.30am	Aust. inventories (%q/q, 3Q)	**-2.0**	-1.0	*-3.4*
Monday, November 30	11.30am	Aust. government finance statistics (3Q)	**na**	na	*na*
Tuesday, December 1	9.30am	AiG performance of manufacturing (Index, Nov.)	**na**	na	*51.7*
Tuesday, December 1	11.30am	Aust. building applications (%m/m, Oct.)	**-5.0**	2.0	*2.7*
Tuesday, December 1	2.30pm	RBA cash rate announcement (%)	**3.75**	3.75	*3.50*
Thursday, December 3	9.30am	AiG performance of services (Index, Nov.)	**na**	na	*54.8*
Thursday, December 3	11.30am	Aust. retail sales (%m/m, Oct.)	**0.3**	0.3	*-0.2*

(a) Australian Eastern Standard Time.
(b) Consensus based on Bloomberg survey.

Australia

Aust. private sector credit (%m/m, Oct.) - The RBA's private sector credit aggregates should have risen 0.2%m/m in October. The rise in credit will owe much to a smaller contraction in the amount of loans outstanding to business. Credit to housing and for other personal purposes should have risen.

Aust. company profits (%q/q, 3Q) - Company operating profits probably fell 2.0%q/q, prolonging the weakness seen since the end of 2008. The forecast fall will, however, be modest in comparison to the 7.8%q/q drop in 2Q. Profits probably will rise in the December quarter and in 2010.

Aust. inventories (%q/q, 3Q) - In the September quarter, we expect inventories will have fallen 2.0%q/q. The smaller fall compared to the previous quarter, though, means the change in inventories will add to GDP growth in the quarter.

Aust. building approvals (%m/m, Oct.) - Residential building approvals probably fell 5%m/m in October, in the wake of the RBA's decision in early October to hike the cash rate 25bp. This, combined with tighter lending standards and the phasing out of the first home buyers' grant, will be a strong headwind.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Data and event previews - contd.

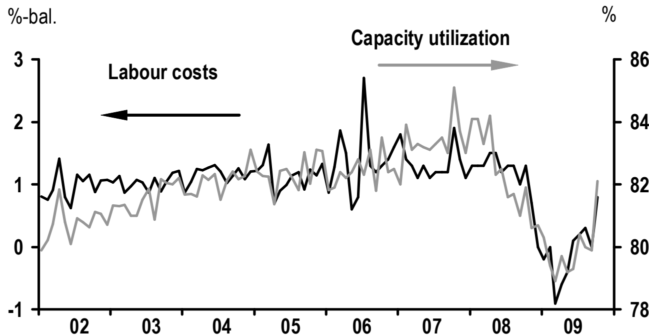
RBA policy decision - The forecast is that the Reserve Bank will take another small but determined step toward the "emergency" exit. We anticipate a 25bp hike, which will take the cash rate to 3.75%. The RBA is the only central bank in the G-20 currently raising its policy rate because the previous "emergency" policy settings no longer are appropriate. The tone of the commentary in the statement announcing the decision tomorrow probably will be balanced, with the statement hinting that further removal of policy accommodation will be "gradual". This will leave open the door for a further tightening at the next Board meeting in February.

Aust. retail sales (%m/m, Oct.) - Retail sales values in October probably recovered some of the previous month's losses, rising 0.3%m/m. Healthy employment gains, upbeat consumer confidence, and the firmer Australian dollar will have underpinned consumer spending. The RBA's early-October rate hike, however, will have prevented a sharper rise in sales.

JPMorgan Australia Ltd., Sydney
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

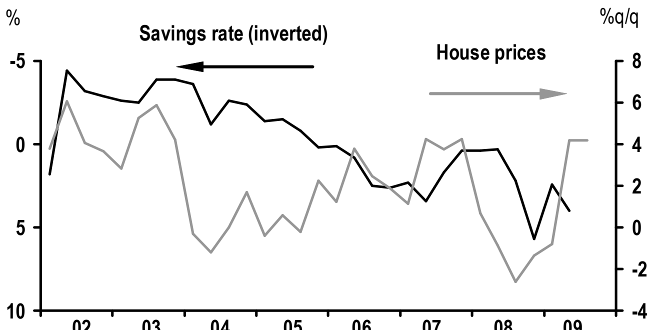
Feature charts

Australia: NAB survey - capacity utilization and labour costs



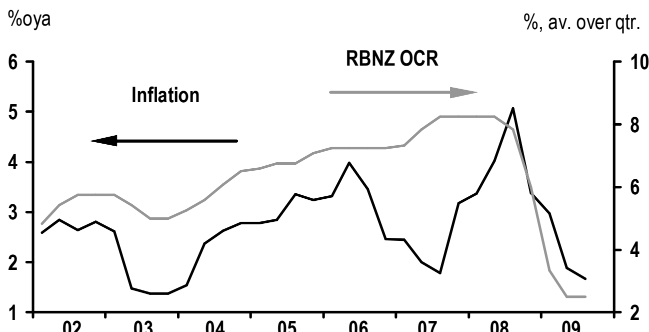
On Australian firms' assessments, slack is being eroded due to a pickup in economic activity, but supply-side conditions are yet to return to the average levels of the last decade. This means that inflation should not rear its ugly head in the immediate future, but that pressures will start to build. The RBA, therefore, will continue to normalize policy, unwinding the unprecedented policy stimulus of the last easing cycle. That said, the cash rate will remain at accommodative levels for some time.

Australia: savings rate and house prices



The household savings rate in Australia has been steadily increasing over the last five years, and has been less sensitive to increases in household wealth than has savings behaviour in other developed countries. In Australia, sharp reductions in house price growth have induced more saving, though recent house price appreciation has not created aggressive dissaving. Household indebtedness, however, remains very high by global standards.

New Zealand: CPI and RBNZ official cash rate



New Zealand's Labour opposition has voiced concern over the inflation-targeting regime of the RBNZ, claiming that more attention should be focused on the currency and international competitiveness. The recent history of RBNZ policy, however, indicates that officials do consider other factors, and are not completely tied to the objective of price stability.

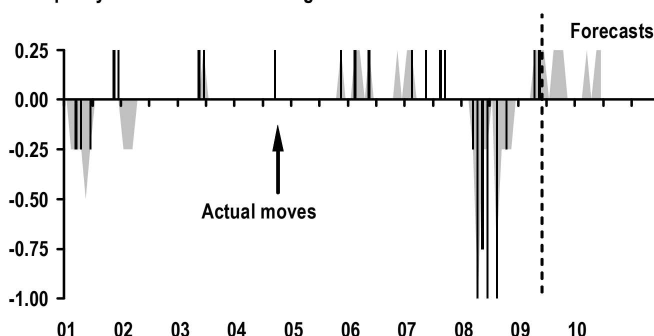
JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Ben Jarman (61-2) 9220-1669
ben.k.jarman@jpmorgan.com

Research note

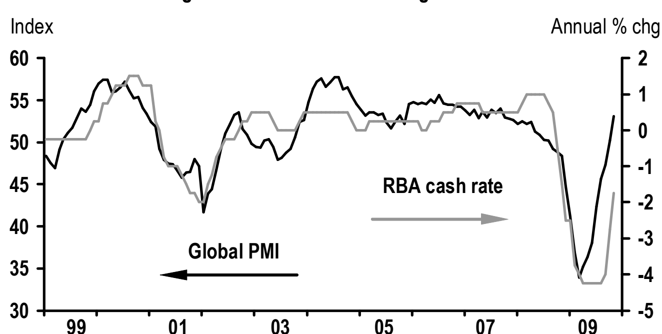
Determined RBA moving ever closer to the emergency exit

- **The RBA will likely raise the cash rate 25bp Tuesday, the third straight monthly move**
- **We expect another rate hike in February and a cash rate of 5% by end-2010**
- **Our reestimated RBA policy tool points to a steady drumbeat of rate hikes in 2010**

RBA policy decisions and J.P. Morgan model



Global manufacturing PMI and RBA cash rate target



With the RBA Board meeting scheduled for Tuesday, the forecast is that the Reserve Bank will take another small but determined step toward the emergency exit. We anticipate a 25bp hike, the third in as many months, which will take the cash rate to 3.75%. The RBA surprised many during the darkest periods of the global crisis by slashing the cash rate to a 50-year low with assertive cuts of up to 100bp. Now, RBA officials again will be breaking new ground; never before have they hiked for three straight months. As we learned as the cash rate plunged, though, using established "norms" from previous episodes to forecast the likely pace of cash rate adjustment in this cycle is unwise. This cycle clearly is different, with the RBA, for example, now hiking as unemployment rises. This also breaks new ground.

Emergency settings no longer needed

The RBA is the only central bank in the G-20 currently raising its policy rate. This is because the previous policy stance, which Governor Stevens described as an "emergency" setting, no longer is appropriate. The RBA took out what amounted to catastrophe insurance at the height of the crisis in case the economy took a turn for the worse. Now that the storm threatening Australia's economy has blown over, there no longer is a case to "pay the premia."

Indeed, the run of upbeat economic data has strengthened the already-compelling case for further removal of policy accommodation. Employment unexpectedly bounced in October, demand for home loans soared in September, business confidence rose in October, and consumer confidence has fallen only modestly despite the RBA's consecutive rate hikes. Last week saw another bounce in car sales, the second in as many months, and firms upgraded their investment plans owing mainly to the improved economic and financial environment. When coupled with further encouraging news on the global economy, Australia clearly is growing at a rate that no longer requires the still-considerable accommodation implicit in current policy settings. The forecast is that the RBA will continue to withdraw policy accommodation in 2010, but at a slower pace. We forecast a 25bp rate hike in February at the first Board meeting of 2010, and a further 100bp of tightening by the end of next year.

On our estimates, some time during the second half of 2010, the cash rate will have returned to a broadly neutral setting, although the definition of neutral is changing. For example, higher bank funding costs mean commercial banks may raise lending rates more than the RBA increases the cash rate. The RBA will get more market rate bang for its policy rate buck. Suggested changes to bank liquidity arrangements also may affect the appropriate level of the cash rate. Australia's banks have unusually high cross-holdings of other banks' corporate paper, relative to banks elsewhere in the G-20. If the push for new global liquidity regulations requires these cross-holdings to be reduced, Aussie banks will be forced to hold other liquid assets. If finding these assets proves to be problematic, there could be a contraction in the amount of credit banks are able to provide. Credit growth, therefore, would be slower than would normally be consistent with a given level of the cash rate.

RBA policy tool "born again"

We have updated the RBA forecasting tool launched in 2007; the tool broke down in 2008 when the RBA moved in larger hops. The original probit model was adapted from work by our European colleagues to describe and predict

RBA behavior. The model combined a standard reaction function, which described an appropriate policy rate, with an ordered probit model, which estimated the probability of the RBA moving policy toward the appropriate rate given the data flow. One limitation of forecasts derived from a probit approach, however, is that, by definition, the model must assign zero probability to events that have not been observed, like 100bp rate cuts. The RBA's preference for large policy easing explains why the original version of the tool ceased being useful in the closing months of 2008.

Now, though, we have reestimated the tool so it can deal with large moves. The new tool employs the same building blocks as the first, using historical prints of the various data and J.P. Morgan's forecasts. The tool's three domestic independent variables are: capacity utilization (from the NAB business survey), the trimmed mean CPI (published by the Australian Bureau of Statistics), and the rate of credit growth (published by the RBA). The international variables are the global policy rate, a GDP-weighted policy rate for the major economies, and J.P. Morgan's global manufacturing PMI. In its current configuration, where the old tool broke down in late 2008, the new tool "predicted" the assertive rate cuts back then, and again earlier this year.

New RBA tool calls for December hike

The updated model is particularly informative now since it incorporates a normalization aspect of the monetary tightening to come: the unwinding of emergency settings put in place to insure against a disaster that did not occur. The new tool identifies such forward-looking aspects of policy through rate decisions that remain unexplained given the contemporaneous data/policy relationship estimated by the probit model. The tool then "remembers" these unexplained RBA decisions and adds a policy reversal aspect to the fundamentals in the next cycle. This ensures the tool will not predict a rate move given a change in data that was correctly anticipated by the RBA—the probit model's prediction of a rate move when the data eventually change would be balanced by the policy reversal aspect of the tool.

While the tool is but one input to our forecasting of the RBA's likely behaviour, it indicates that RBA officials will continue to withdraw policy accommodation. Indeed, the revised tool not only predicted the October and November rate hikes, but calls for a third straight hike in December. Moreover, the tool predicts another hike early in 2010, and "forecasts" a 5.25% cash rate by the end of next year, broadly in line with our published forecast of 5%.

Method: From probabilities to predictions

(1) Ordered probit. The probit model establishes a relationship between the RBA's policy action in a given month and capacity utilization, (interpolated) trimmed mean CPI, credit, and J.P. Morgan's global policy rate and manufacturing PMI.[1] The probit model performs well: each variable is highly significant, as they are jointly (LR stat). However, the fitted estimates from the probit model, while informative, produce probabilities of various RBA moves, not specific predictions. This is addressed in the next step.

J.P. Morgan's probit model (lags in parentheses)

	Coeff	P-value	
Capacity utilization (-1)	1.045	0.001	
Trimmed mean CPI (-3)	3.804	0.000	
RBA cash rate (-1)	-4.025	0.000	
Private sector credit (-2)	0.727	0.001	
Global policy rate	1.901	0.000	
Global PMI (-1)	0.442	0.000	
Likelihood Ratio (LR) stat	98.016	Prob (LR stat)	0.000

(2) Basis point (bp) moves. The original version of the model calculated the probability weighted average move (in bp) from the probit equation in each month, then accumulated these over several months. When the accumulated bp exceeded a threshold, the model predicted a cut or hike. This technique would constrain our ability to predict the larger historical moves, since, if the case was mounting for a 50bp move, the model would instead predict 25bp as soon as the relevant threshold was met. We therefore (initially) use only the relevant month's probabilities, and introduce an accumulation concept later.

Step (2) assigns, in intervals of 25bp, the move that is closest to the probability-weighted average from the probit model, provided the total probability of a cut (hike) meets the cut (hike) threshold. The thresholds are chosen to minimize errors (again, in bp) relative to the RBA's actual decision.[2]

(3) Predictions. To incorporate long-run factors, the model "remembers" RBA policy decisions in each cycle that were not explained by fundamentals, as judged by the probit model stage. The difference is fed back into the model, either reinforcing or counterbalancing fundamentals in the next cycle.

1. For detailed definitions of these variables, see "A model of RBA behavior: another rate rise in late 2007," *GDW*, August 29, 2007. The probit equation can be interpreted as the reduced form of a Taylor rule (CPI and output gap) and an equation describing the adjustment of the policy rate (lagged cash rate and remaining variables) to the desired rate.

2. This step is important, since the probit model fits an entire probability distribution to the data. There is no guarantee that the "average probability event" is the best predictor of actual outcomes. We minimize bp errors rather than a simple "right/wrong" score, so that large errors in prediction, appropriately, carry a greater penalty.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Australia

- **RBA to deliver third straight monthly rate hike**
- **Credit outstanding to expand in October**
- **Aussie firms upgrade investment spending plans**

The RBA decision Tuesday will be the highlight of a busy week, with a slew of important 3Q economic indicators scheduled for release. The data includes inventories and company profits (both Monday), private sector credit, retail sales, and residential building approvals.

RBA moving closer to “emergency” exit

With the RBA Board meeting scheduled for Tuesday, the forecast is that the Reserve Bank will take another small but determined step toward the exit. We anticipate a 25bp hike, which will take the cash rate to 3.75%.

The RBA is the only central bank in the G-20 currently raising its policy rate because the previous “emergency” policy settings no longer are appropriate. The RBA took out “catastrophe insurance” at the height of the crisis in case the economy took a marked turn for the worse. Now that the storm threatening Australia’s economy has blown over, there no longer is a strong case to “pay the premia.”

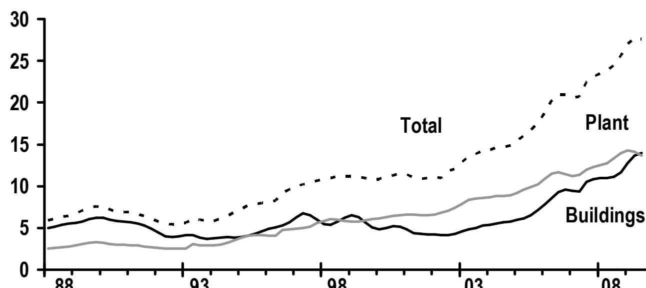
Indeed, the run of upbeat economic data has strengthened the already-compelling case for further removal of policy accommodation. Employment unexpectedly bounced in October, demand for home loans soared in September, business confidence rose in October, and consumer confidence has fallen only modestly despite the RBA’s two rate hikes. Last week saw another bounce in car sales, the second in as many months, and firms upgraded their investment plans owing mainly to the improved economic and financial environment. When coupled with further encouraging news on the global economy, Australia clearly is growing at a rate that no longer requires the still-considerable accommodation implicit in current policy settings. The forecast is that the RBA will continue to withdraw policy accommodation in 2010, but at a slower pace. We forecast a 25bp rate hike in February at the first Board meeting of 2010 and a further 100bp of tightening by the end of the year.

Aussie business indicators to moderate

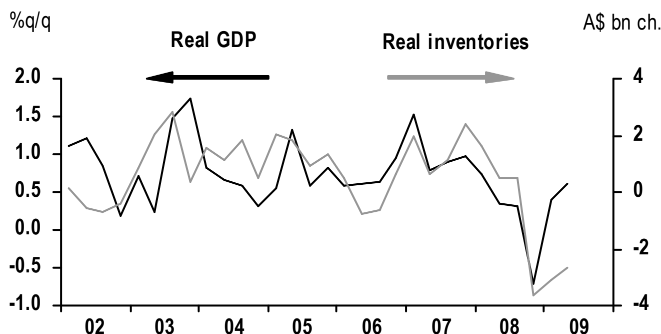
The first of the week’s important economic data releases is on Monday—inventories and company operating profits. We expect that firms’ inventories fell in 3Q, but more moderately than in the previous three months. Inventories

Australia: new capital expenditure volumes

trend, A$bn



Australia: GDP and inventories



plummeted 3.4%q/q in 2Q as firms trimmed operating costs and final demand remained strong (thanks partly to stimulus support). In 3Q, we expect inventories will have fallen 2.0%q/q. This result nevertheless would mark the fourth straight quarterly decline. This continued drawdown, however, is positioning the industrial sector for a strong cyclical rebound in 2010.

Also, company operating profits probably fell 2.0%q/q in 3Q, prolonging the weakness that has been in place since the end of 2008. The forecast fall will be modest in comparison to the 7.8% drop in the previous three months. Margins have been squeezed by higher funding costs, while firms also have shed labour less intensively in this cycle than during previous downturns. This has supported the household sector, but created a drag on corporate profitability.

Retail sales to have rebounded in October

Australian retail sales values in October probably recovered some of the previous month’s losses, rising 0.3%m/m after falling 0.2% in September. Healthy employment gains, upbeat consumer confidence, and the firmer Australian dollar will have underpinned consumer spending. A

larger rebound will have been prevented, however, by higher petrol prices, a fall in the domestic equity market over the month (albeit mild), and the tightening in monetary conditions bought around by the RBA's decision to hike the cash rate 25bp in early October.

The December quarter will be tough for retailers, owing to rising interest rates and the absence of any further government cash handouts. Interestingly, the Westpac Melbourne Institute consumer sentiment survey two weeks ago asked a question about people's spending intentions this Christmas. About half of those surveyed said they would spend about the same this year as last year; 35% said they would cut back; and 14% said they would spend more. Consumer spending, therefore, probably will be soft in 4Q.

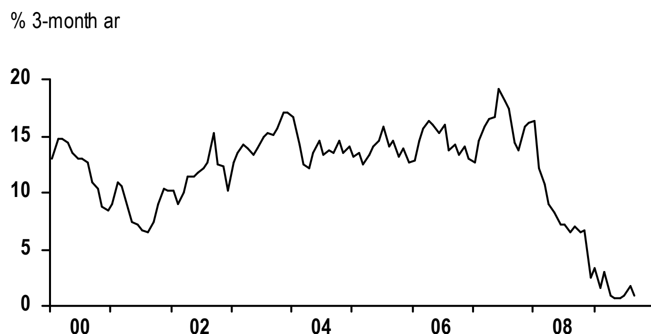
Business lending to stabilize

The RBA's private sector credit aggregates should have risen 0.2%m/m in October, reversing the unexpected fall of the previous month. The 0.2%m/m drop in October would be only the second contraction in the amount of loans outstanding since December 1992; the last was in December 2008 when outstanding credit shrank 0.3%m/m.

The rise in credit will owe to a smaller contraction in the amount of loans outstanding to businesses. Business lending should have fallen 0.5%m/m, after slumping 1.3% in September, which was the largest fall since December last year. Indeed, large firms appear to be raising funds via alternative sources, such as capital raisings, rather than borrowing from banks. That said, the most recent private business investment survey showed a significant upgrade to firms medium-term investment plans, which should increase demand for business lending down the track.

Demand for housing credit should have slowed in October, owing to the phasing out of part of the expanded first home buyers' grant (starting October 1). Housing credit should have grown 0.6%m/m, slowing from 0.7% in September. The continued expansion in housing credit, which has grown at rates between 0.6%m/m and 0.8% since the first home buyers' grant was expanded in October last year, is a concern for RBA officials, who have warned against credit-fuelled rises in house prices. Governor Stevens believes the challenge ahead lies with "how to ensure that the ready availability and low cost of housing finance is translated into more dwellings, not just higher prices." Indeed, in the second and third quarters, house prices spiked over 4%q/q.

Other personal credit should have risen in October by 0.2%m/m, reversing the fall in the previous month. Up until September, personal credit had fallen in 15 of the last 16 months. This reflected, in particular, a decline in margin lending. We expect that personal lending will remain subdued owing to expectations that the RBA will continue to tighten policy throughout 2010.



Firms upgrade investment plans for 09/10

The 3Q business investment survey last week showed that managers in Australia are feeling more optimistic about the outlook. The survey showed a significant upgrade to investment spending plans for 2009-10. In the September survey, firms implied they would leave spending largely flat in the year ending June 2010. This result alone may appear mediocre, but it marks a significant improvement on the June survey three months ago, which showed that firms intended to cut investment by 7% in the year to June 2010.

Firms which had previously trimmed their business investment plans have revised those intentions higher, owing to the ongoing improvement in economic and financial conditions since the last survey was undertaken. Also, a number of major mining-related projects, including the Gorgon natural gas project off the coast of Western Australia, have been approved in recent months, helping to boost firms' confidence and trigger upgrades to spending plans. Firms' fourth estimate of spending for the year ended June 2010

was much higher than we anticipated at A$102 billion. This fourth estimate was 5.9% higher than the third estimate for 2009-10 and implies that spending will likely remain broadly unchanged across the fiscal year. This spending, though, is coming off an elevated base.

In 3Q, investment spending unexpectedly declined, falling 3.9%q/q (J.P. Morgan 4.5%, consensus 1.0%), after rising 2.1% in the previous three months. The pattern across industries was a reversal of that reported in the previous survey. Spending in mining rose 3%q/q, but spending in other industries fell 6% and spending in manufacturing tumbled 13%. Investment in equipment, plant and machinery and on buildings and structures both fell in the third quarter, slipping 3%q/q and 5% respectively, following gains in the previous quarter. Ex-mining spending was down 7%q/q.

The improvement in the medium term investment outlook has positive implications for the labour market. Investment is one of the main drivers of job creation in the economy, meaning employment growth should accelerate in 2H10. With the RBA already highlighting that there is less spare capacity in the economy than had been expected, and with capacity constraints and skills shortages likely to rear their heads again in 2010, upward pressure on inflation will build. This reaffirms our view that the RBA will continue tightening policy at a measured place throughout 2010.

Data releases and forecasts

Week of November 30 - December 4

Mon
Nov 30
11:30am

Private-sector credit
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	0.2	0.2	-0.2	0.2
(%oya)	2.9	2.6	1.7	1.5

Mon
Nov 30
11:30am

Inventories
Seasonally adjusted

	4Q08	1Q09	2Q09	3Q09
(%q/q)	-1.5	-1.4	-3.4	-2.0
(%oya)	1.7	-1.1	-5.3	-8.1

Mon
Nov 30
11:30am

Company operating profits (business indicators)
Nominal, gross operating, seasonally adjusted

	4Q08	1Q09	2Q09	3Q09
(%q/q)	-7.2	-6.1	-7.8	-2.0
(%oya)	18.8	7.0	-14.7	-21.2

Tue
Dec 1
11:30am

Building approvals
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	7.2	-0.9	2.7	-5.0
(%oya)	-2.4	0.4	11.7	2.5

Building approvals probably fell following the RBA's rate hike, combined with tighter lending standards, and the phasing out of the first home buyers' grant.

Tue
Dec 1
2:30pm

RBA cash rate announcement

25bp hike expected.

Thu
Dec 3
11:30am

Retail trade
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	-0.9	0.7	-0.2	0.3
(%oya)	5.2	5.7	6.0	5.8

Review of past week's data

Sales of new motor vehicles
Units, seasonally adjusted

	Aug		Sep		Oct	
(%m/m)	~~0.1~~	*0.3*	~~2.9~~	*3.1*	__	*3.7*
(%oya)	~~-6.1~~	*-6.3*	~~-2.0~~	*-1.8*	__	*3.3*

Construction work done
Seasonally adjusted

	1Q09		2Q09		3Q09	
(%q/q)	~~-2.2~~	*-3.6*	~~-0.1~~	*4.5*	__	*2.2*
(%oya)	~~5.4~~	*5.7*	~~5.4~~	*10.7*	__	*6.9*

Private new capital expenditure
Seasonally adjusted

	1Q09		2Q09		3Q09	
(%q/q)	~~-7.3~~	*-5.1*	~~3.3~~	*2.1*	~~5.0~~	*-3.9*
(%oya)	~~7.9~~	*11.7*	~~4.4~~	*8.0*	~~7.9~~	*-1.3*

New Zealand

- **NZ business confidence slipped**
- **Firms' own outlook on the economy improved**
- **RBNZ to reiterate policy stance in December**

It was a quiet week last week in New Zealand, the highlight being the NBNZ business survey. Business confidence dropped in November, but the outlook improved. Between now and the RBNZ's OCR announcement (Dec. 10), the data in New Zealand slows to a mere trickle. We expect that the RBNZ will reiterate that the OCR will remain "at" the current level until 2H10, and will not be any more hawkish in light of data last week showing that inflation expectations have risen. Inflation expectations may be rising, but other data of late has disappointed.

Business confidence falls, outlook better

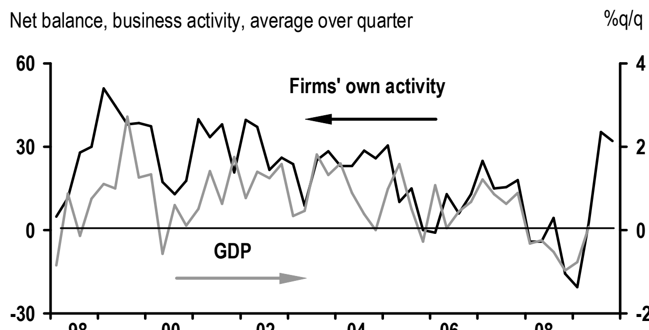
The NBNZ business confidence survey fell in November, slipping to 43.4 (J.P. Morgan 47.0) from 48.2. We had anticipated a fall given that, since the last survey, the domestic data have generally disappointed. Economic data have shown a surge in unemployment, subdued wage growth, and softer consumer spending. Offshore, the data have been patchy, although there has been a continued improvement in economic conditions in Australia and New Zealand's other major trading partners in Asia, which would have prevented an even larger fall in confidence.

The survey showed that a net 43.4% of firms believe the economy will improve over the next 12 months, compared to a net 48.2% in the previous survey. In contrast to the headline figure, the all important firms' own activity outlook improved, rising to 33.7 in November from 30.5, confirming that the Kiwi economy will continue to expand in coming quarters. In the detail, slightly fewer respondents expect profits to improve, with a net 11% of respondents expecting profits to rise over the next 12 months (down mildly from 12%). Only a net 11% expect conditions in the commercial construction sector to improve (down from 47%), while a net 45% expect conditions in residential construction to improve (up from 41%).

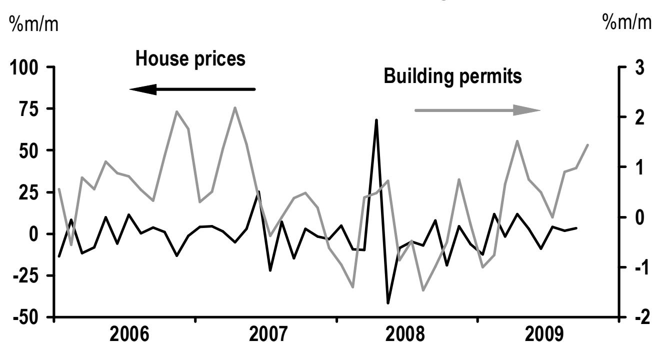
On a positive note, the employment component returned a positive result, with a net 5% now expecting to hire staff in the next year, compared to -0.3% in the previous survey. Although a net 35% still expect the unemployment rate to rise, this result was better than the 41% recorded in the previous month. The investment outlook also improved, with a net 7% (up from 6%) expecting investment to pick up. It appears also that strong NZD has yet to adversely impact export growth expectations, with 24% expecting exports to increase in the next 12 months (up from 22%).

New Zealand: NBNZ business outlook survey and GDP growth

Net balance, business activity, average over quarter



New Zealand: REINZ house prices and building permits



Data releases and forecasts

Week of November 30 - December 4

Mon Nov 30 10:45am — **Building consents**, Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	4.0	1.7	3.4	__
(%oya)	-16.7	-8.9	-12.7	__

Thu Dec 3 3.00pm — **ANZ commodity price series**, Not seasonally adjusted

	Aug	Sep	Oct	Nov
Index - world prices (%m/m)	4.4	6.8	4.6	__
Index - NZD (%m/m)	-0.5	2.4	-0.4	__

Review of past week's data

Visitor arrivals

Non seasonally adjusted

	Aug	Sep	Oct
Total (%m/m)	-0.5	3.8	__ *-0.7*

JPMorgan Australia Ltd., Sydney
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Net permanent immigration

Non seasonally adjusted

	Aug	Sep	Oct
Monthly (000s)	1.6	3.1	__ *3.0*
12 month sum (000s)	15.6	17.0	__ *18.6*

NBNZ business confidence

	Sep	Oct	Nov
% balance of respondents	49.1	48.2	~~47.0~~ *43.4*

Trade balance

Not seasonally adjusted

	Aug	Sep	Oct
Trade balance (NZ$ mn)	~~-719~~ *-717*	~~-424~~ *-563*	~~-500~~ *-487*

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Global Essay

- **A tension will emerge between policies promoting stability and the need for sustained strong growth**
- **EM FX reserves are surging again**
- **Asian domestic demand has found solid footing**
- **This week: RBA to raise rates, US November ISM (53.5) and payroll losses (100k) expected to fall**

The trade-off between vitality and stability

The recent global data flow shows solid growth in industrial activity, rising consumer spending, and a firming in household and business sentiment—developments consistent with our view that a synchronized global upturn will be sustained into 2010. There remains, however, an important unanswered question: Will firms complete the shift away from retrenchment and raise employment and capital spending next year? Our optimism on this front has been challenged by the disappointment in October readings from the US (capital goods orders and output, payrolls) and US regional business surveys that suggest that the manufacturing ISM survey will fall this week (to 53.5). However, the broad sweep of upbeat global indicators, notably in Asia, and the encouraging news from US initial jobless claims (the most reliable high-frequency growth indicator), leave us comfortable about near-term growth trends. This week's November release of our global PMI survey and US payrolls will help clarify where the global expansion stands as we move toward year-end.

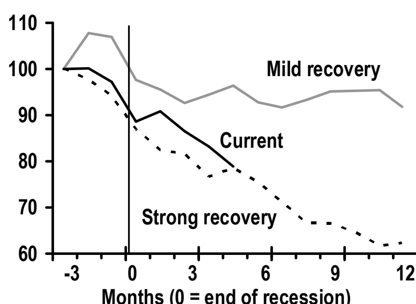
While data-watching is critical for tracking the 2010 outlook, we recognize the central role that policy actions will play in determining the broader contours of this economic expansion over the coming decade. It is natural to consider policy decisions in their separate monetary, fiscal, and regulatory spheres, but this should not obscure the connecting thread linking these three. Across each sphere there is enormous pressure to implement policies that promote stability and social insurance as we move away from emergency stances. The irony is that these actions are bound to weigh on growth, the most important requirement for achieving social and financial stability in the years ahead.

In the ashes of a financial crisis that has produced the deepest global recession since World War II, the need for policies that promote stability is clear and is warranted. Regulatory structures need to fix problems that fostered the crisis, and higher capital requirements and greater limits on the risk-taking by large financial institutions make sense. In the monetary policy sphere, there is growing recognition that central banks need to account for asset price inflation and the possibility that they promote damaging overvaluations and credit booms. For fiscal authorities, the challenges are complex as they face the rising debt burden created by the crisis along with the social costs of sustained high unemployment. Social insurance schemes are in the process of being expanded. It looks likely that tax burdens will eventually rise across the developed world to help pay for the damage done to fiscal balances.

Although this broad thrust in policy may be desirable, it is likely to produce higher costs of capital and incentives that will weigh on growth. In normal times, the cost of these actions in the form of lower growth might be acceptable. However, the current juncture places a high premium on growth for countries facing high unemployment and large budget deficits. For the US, where the overhang of high unemployment is greatest, our estimates suggest that the economy will need to grow 5% on a sustained basis to bring unemployment back to its long-term trend within four years. In Japan, where fiscal problems are most severe, our estimates suggest that it will take a minimum of 3% average nominal GDP growth to prevent the government debt/GDP ratio from eventually rising above 250%. That neither of these two

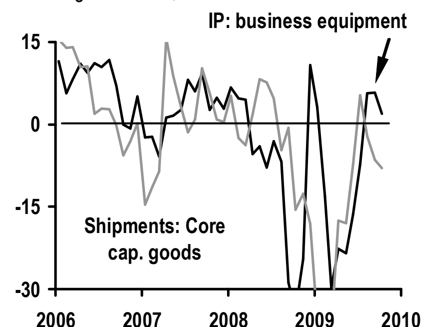
US initial claims at the start of expansions

Index, three months prior to end of recession = 100



US industrial activity

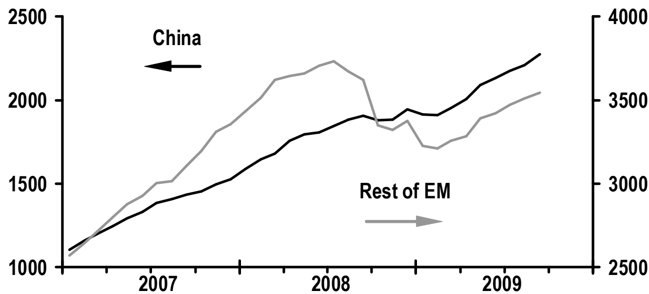
% change 3 months, saar



JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

EM FX reserves

$bn, both axes



growth scenarios is likely to be realized only reinforces the message that growth is the critical medicine needed for healing and that shortfalls in growth increase the risk of financial and social instability.

Dubai reminds of latent market risks

Our forecast has emphasized the importance of the positive feedback loop between financial markets, confidence, and spending in promoting growth. While the primary downside risk is adverse economic developments that might undermine this process, the events in Dubai are a reminder that there are also financial sector risks. The government of Dubai announced on Thursday the restructuring of government-owned Dubai World debt and said it intends to ask creditors for a standstill agreement that extends debt maturities to at least May 30. The announcement created a shock wave and raised concerns over the exposure of international banks to Dubai, not least because of the limited details of the restructuring plan. The announcement also contributed to an increase in risk aversion toward emerging markets, while the impact on GCC equity markets will only be seen after markets reopen Tuesday at the end of the Eid holidays. The restructuring of one of the key quasi-sovereign entities in Dubai could have major effects on the domestic banking system, resulting in a chain of rating downgrades that in turn could dampen the recovery of the UAE economy as banks rein in credit growth. The Dubai announcement also will have large ripple effects on the regional political landscape and weaken Dubai's political weight within the UAE.

EM FX reserves resume their rapid climb

EM foreign exchange reserves rose sharply this decade as policymakers tempered upward pressure on FX rates arising from strong trade revenue and private capital inflows. This trend reversed in late 2008, when EM exports plunged, as did net capital inflows to the group. Indeed, between July 2008 and February 2009, EM FX reserves declined more than $450 billion (USD) as governments sold reserves to support their currencies.

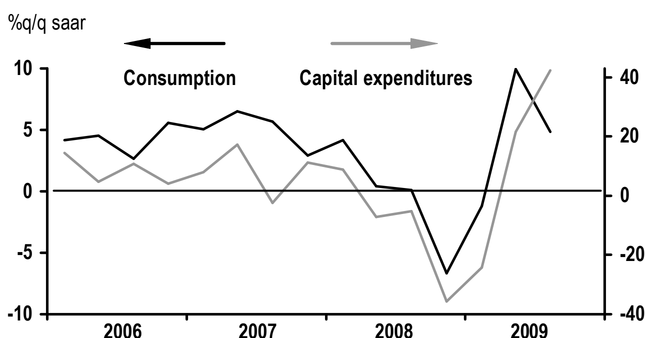
The tide turned once again in early 2009. EM exports have rebounded sharply as has investor risk appetite, producing strong inflows into the EM and putting substantial upward pressure on EM currencies. To limit currency gains, EM central banks accumulated FX holdings at an average pace of $100 billion per month from February to September. (A portion of these gains reflects appreciation in nondollar reserve assets against a backdrop of a falling US dollar.) China, whose policymakers recently have maintained a strict peg to the dollar, is responsible for more than half of the total rise in EM reserves in the seven months through September. The central banks of Brazil and Korea, whose currencies have risen more than 20% since February, also stand out. With EM FX reserves rising once again, central banks are likely to intensify their effort to diversify their investments away from US dollars. Last week the central bank of Russia announced that it will diversify part of its reserves into Canadian dollars and may look for one or two other currencies, which comes on top of earlier news that it would increase its gold holdings.

Domestic demand lifting Asian economies

While the economic cycle has been a highly synchronous global event, Asia has been at the forefront, largely reflecting the high-beta nature of its IP and export cycle. Asia's recovery also has been fueled by massive policy stimulus in China and Japan.

The sheer strength of Asia's initial bounceback made it inevitable that growth would moderate into year-end. Some slowing already is evident in 3Q GDP reports, although EM Asia still racked up 9% sequential growth. Growth is expected to ease further to a 6% pace this quarter and next. Excluding India, where growth will be held down by the below-average monsoon, and China, whose economy is expected to produce steady growth of over 9% at the turn of the year, J.P. Morgan expects that EM Asia's more cyclical economies will moderate to about a 4% growth pace. That said, the momentum in exports and IP remains impressive, so there may be upside risk to our near-term forecast. This week's remaining reports for October and the November manufacturing PMIs will help fill in the picture. It also is important to note that Asia's bounceback extends beyond exports. Consumption and capex are growing strongly, contributing to a well-balanced and sustainable expansion, especially with policymakers likely to remain growth-

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com



supportive.

Japan is following a similar path. The initial lift to the economy came from exports and IP, and the latest reports confirm that these drivers continue to expand robustly in the current quarter. Domestic demand also has picked up pace, contributing to a nearly 5% real GDP gain last quarter. However, with the new government temporarily putting the brake on fiscal stimulus, the growth of consumer spending should moderate substantially between now and the advent of the new fiscal year next April. Last week's soft October consumption reports likely herald this change, as does the recent leveling off in the business surveys. At the same time, the fundamental support for consumption appears to be strengthening, as job growth has resumed and the unemployment rate is sliding.

ECB to take first step toward the exit

Several important developments concerning global central banks merit attention this week. The RBA is expected to deliver its third consecutive 25bp rate hike of its recently launched tightening cycle. In the United States, the Bernanke confirmation hearings will get under way. The grilling he is likely to receive should not suggest that his confirmation is in doubt. Nor is it likely to reveal much about the monetary policy outlook. However, it will highlight the risks the Fed faces as a number of legislative initiatives threaten to limit its power and its independence.

This week's ECB meeting is likely to set the tone for the debate about Euro area monetary policy for next year. One important issue concerns future one-year tenders. In the first two one-year tenders in June and September, the ECB offered unlimited liquidity at the policy rate of 1%. For the December tender, recent comments indicate that the ECB is considering indexing the borrowing rate to the average policy rate during 2010. This would signal that the ECB sees some likelihood of a rate hike next year and would likely limit the bidding for funds. In addition, we expect the ECB to begin the exit process by announcing that the December one-year tender will be the last of its kind, while still offering unlimited liquidity at a fixed rate out to six months until at least next summer.

It also will be important to see how the ECB amends its GDP and inflation forecasts for next year and extends them into 2011. On GDP, the central bank will present a more upbeat assessment than in September, while maintaining that the recovery will be lackluster and bumpy. Regarding inflation, we anticipate that the ECB's inflation projections will show a move up in 2011 from 1.2% in 2010, which would suggest that the disinflation generated by the worst recession in 60 years is expected to be quite limited.

Brazil risks excessive stimulus

Last week Brazil announced it would extend fiscal stimulus, including tax benefits to auto and building material sales, and that furniture sales would also be included in this program. The announcement came despite a continued deterioration in public finances (the primary surplus has dwindled to a 10-year low of 1% of GDP) and despite a briskly expanding economy in which unemployment is close to historical lows, operating rates are back to normal, credit markets are recovering fast, and inflation is already very close to targeted levels. Last week's initiatives reinforced our view that a monetary policy tightening will start in January, and if the central bank delays, the tightening cycle will require an even higher Selic rate in the end. Markets will pay close attention to the statement of the December 9 policy meeting to see if the COPOM acknowledges the growing risks of overheating.

JPMorgan Securities Ltd., London
Jan Loeys (44-20) 7325-5473
jan.loeys@jpmorgan.com
John Normand (44-20) 7325-5222
john.normand@jpmorgan.com

JPMorgan View - Global Markets

Aftershocks

- **Portfolio strategy:** The return of credit risk last week should be containable and does not push us out of our dull-world view with up-in-yield, long risk, and carry strategies.
- **Economics:** US data are mixed overall. Europe and Asia are more impressive.
- **Fixed income:** US 2010 outlook is bearish USTs, Agencies, and MBS. Wider swap spreads.
- **Equities:** Dubai crisis provides opportunity to raise exposure to high-quality names in Abu Dhabi, Qatar, and Saudi Arabia.
- **Credit:** We expect a 2010 EM credit rally and overweight EM sovereign debt (EMBIG) and corporate debt versus developed market fixed income.
- **FX:** New forecasts for 2010—1.62 for euro and 0.82 for yen.
- **Alternatives:** Stay short crude oil.

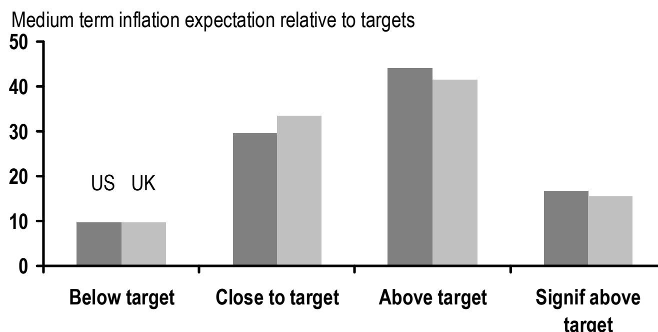
Last week's serenity was disturbed by the sudden return of credit risk when Dubai World unexpectedly requested a delay of debt repayments. At first blush, this may seem like a repeat of the credit aftershocks—WorldCom, Enron—that marred the recovery from the 2001 US recession. The lack of transparency on the Dubai crisis could keep markets on edge through shrinking year-end liquidity. However, we are taking a more benign view that the **Dubai crisis is containable and will not upset the world recovery and medium-term positive outlook for riskier assets**.

The losses from real estate leverage in Dubai are real and somebody will have to pay for them. The question is whether they will have a domino effect on other leveraged institutions—in particular the banks—that in turn forces broader deleveraging. At the risk of being too sanguine, we believe there are sufficient financial resources and willingness in the region to contain the fire. See *Global Banks, UAE— Exposure at Risk Analysis* by Kian Abouhossein and team for more details on who is exposed to this event.

Last week's volatility did hurt EM asset classes, and this week looks quite uncertain. But even looking at this side of year-end, we **retain a broad overweight of EM** bonds, credit, equities, and currencies, based mostly on superior growth, value, momentum, and capital flows.

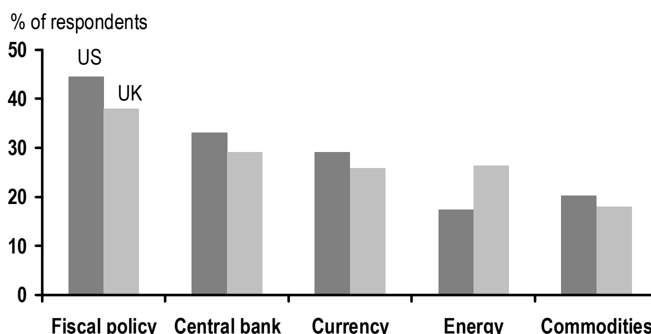
A continued strong bias for above-target inflation

Medium term inflation expectation relative to targets



Relevant factors shaping above-target inflation views

% of respondents



We have been long **bond** duration this past month and earned good returns on this position over the past week, but not for the reason we had hoped. Our main view has been—and remains—that fading event risk will induce carry trading and a continued flow from cash into positive-yielding assets, both bonds and equities. The Dubai crisis has disturbed the almost glacial stillness of markets over the past month, but not by enough for us to exit our go-for-yield strategy. That said, government bonds have rallied significantly and are now again at the lows of their 6-month trading ranges so it makes sense to take profit on long-duration positions.

Over the past four months, fear about QE-induced inflation has abated, measured simply by the questions raised in client meetings. Given how much excess capacity has been created by the global recession, market participants should be more concerned about **deflation** risks. Central banks surely remain tuned into this risk, and this is one reason why we see the three largest central banks remaining squarely on hold through next year. It is good news for the economy that a Japan-like deflation focus has not yet set in. Deflation risk is rarely raised in client meetings.

Our latest *J.P. Morgan Inflation Expectations Survey* similarly shows little concern about deflation, with only 10% of 1,452 respondents expecting below-target inflation rates in

two to five years in the US and the UK. Those seeing such risk in the EU fell from 16% to 12%. The main factor shaping above-target inflation risks remains fiscal policy. About 50% of investors expect Japanese deflation to persist over the next two to five years.

Fixed income

We released our ***US Fixed Income Markets 2010 Outlook*** last week (Terry Belton and Srini Ramaswamy). Our *Global Outlook* is published this week.

In a nutshell, the **end of QE is a negative for US rates,** but overall bond demand is unlikely to collapse. We thus forecast only a slow, but steady, rise in yields, with 10-year USTs ending next year near 4.5%. The curve changes little over the year. Agency debt and MBS will likely underperform USTs. Swap spreads are set to widen.

Equities

Equities came under pressure last week due to the Dubai debt crisis. We view this is as regional issue with limited implications for developed markets or other emerging equity markets (see previous page). Lack of information and uncertainty are likely to keep Middle East equity markets under pressure for several more weeks. We do like the region, though, in the medium term. We recommend investors differentiate between Dubai and the other regional equity markets and opportunistically raise their exposure to high-quality individual names in Abu Dhabi, Qatar, and Saudi Arabia.

We stay long equities and see the S&P 500 at 1,160 by year-end, a 6% upside from here. One support is likely to come from tactical investors positioning for another positive surprise in the 4Q reporting season that kicks off in January and by longer-term investors, e.g., insurance companies and pension funds, positioning for an outperformance of equities versus bonds in 2010.

The second catalyst comes from the **large number of fund managers that have underperformed their benchmarks** so far this year. Tom Lee, our US equity strategist, has pointed to a relationship between the number of managers underperforming by more than 5% through October and the subsequent gain in the S&P 500, likely due to pressure on managers to catch up. On this basis, and with 23% of managers underperforming so far this year, we should see another 5% gain in the S&P 500 by year-end (see *US Equity Strategy FLASH,* Nov 6, Tom Lee).

Credit

We stay long credit and continue to overweight US HG and HY as credit fundamentals improve along with declining downgrade and default rates. In Europe, we favour Financials versus Industrials as our main exposure.

Our EM strategists position for an EM credit rally going into 2010 and recommend **overweight EM sovereign debt (EMBIG) and corporate debt (CEMBI)** versus developed fixed income markets (see *Emerging Markets Outlook and Strategy for 2010,* Joyce Chang et al.). We expect the EMBIG average rating to move into investment grade in 2010, and EM valuations are attractive given the low yields of US investment grade fixed income. External demand for EM assets remains strong and inflows to EM fixed income should reach $30-35 billion next year compared to only $18 billion this year. We forecast **EMBIG spreads to tighten to 250bp by year-end 2010**, from the current level of 324bp.

In EM Corporates, we move from neutral to overweight versus both EM sovereigns and US HG corporates. Looking forward, we are likely to continue to favour new issues as secondary market liquidity will likely remain constrained. **Asia and Emerging Europe** corporate debt offers the most attractive opportunities. With the EM corporate default rate expected to fall from 10.8% this year to 2.2% in 2010, **CEMBI Broad should tighten 300bp** from 397bp last week.

Bonds have outperformed CDS for much of this year. This is set to continue as investors still prefer bonds, especially in HG, while the number of CDS protection sellers is falling further. Dealers are also providing more leverage to implement CDS-bond basis trades.

Foreign exchange

We published *Global FX Strategy 2010* Tuesday and rolled out several major forecast changes. We extend the trough in USD weakness from 1Q10 to 2Q and move targets to **1.62 on EUR/USD, 82 on USD/JPY, 0.91 on USD/CHF, and 1.02 on AUD/USD**. **GBP/USD will benefit from EUR/USD's rise (peak at 1.74 in June), but underperform due to EUR/GBP's rally to 0.94.**

These projections are more bearish than the USD lows we published this summer when we expected EUR/USD to peak at 1.50 and USD/JPY to trough at 89, but three issues have arisen since then. The Fed is proving more comfortable with a zero rate environment than almost every other G-10 or EM

JPMorgan Securities Ltd., London
Jan Loeys (44-20) 7325-5473
jan.loeys@jpmorgan.com
John Normand (44-20) 7325-5222
john.normand@jpmorgan.com

central bank but the Bank of England; cash positions (domestic and cross-border) remain too high for the 2010 interest rate environment; and reserve diversification has accelerated to a record pace. Although the structural arguments for a dollar collapse (even crisis) are less credible than the alarmists claim, cyclical dynamics are powerful enough to drive this overshoot of fair value, much like in the late 1980s and 2007/early 2008.

If extreme rate environments drive overshoots around fair value, then Fed normalization should drive a reversal. That move could come in late 2Q/early 3Q as the Fed begins to exit from exceptionally low levels of policy through some combination of FOMC statement changes and repo operations to reduce excess reserves. The resulting rise in rate expectations and volatility should force a reduction in dollar shorts and push EUR/USD back down to 1.50 by year-end. USD/JPY should then rally to 89.

Alternatives

Commodities were slightly down last week. Prices reacted strongly to the Dubai news. Crude oil took the biggest hit among the major commodities, touching $74 early today before recovering sharply. We believe there is limited upside for oil near term. Total crude/product inventories are not likely to return to historical levels until late next year. The forward curve has steepened considerably over the past month, making long positions more costly to roll, particularly near the front end. We **stay tactically short oil** versus other commodity sectors, but keep an overall neutral allocation to the asset class.

Hedge funds are posting positive returns so far this month, with Equity Long-Short funds outperforming the other styles. Equity Long-Short funds are more directional than earlier this year and leverage has also increased in the past months. Other hedge fund styles, such as Macro, maintain low leverage.

Ten-year Government bond yields

	Current	Dec 09	Mar 10	Jun 10	Sep 10
United States	3.21	3.50	3.90	4.10	4.25
Euro area	3.18	3.30	3.30	3.40	3.45
United Kingdom	3.55	3.85	4.05	4.30	4.45
Japan	1.25	1.40	1.30	1.40	1.50

Credit markets

	Current	YTD Return
US high grade (bp over UST)	189	17.5%
US high grade (bp over swaps)	174	
Euro high grade all (bp over swaps)	92	15.1%
USD high yield (bp vs. UST)	743	54.4%
EMBIG (bp vs. UST)	337	28.8%

Foreign exchange

	Current	Mar 10	Jun 10	Sep 10	Dec 10
EUR/USD	1.50	1.55	1.62	1.55	1.50
USD/JPY	86.8	85	82	85	89
GBP/USD	1.65	1.65	1.74	1.68	1.67

Commodities - quarterly average

	Current	10Q1	10Q2	10Q3	10Q4
WTI ($/bbl)	75	70	65	70	70
Gold ($/oz)	1170	1050	1000	1000	975
Copper($/m ton)	6793	6250	6000	5750	5800
Corn ($/Bu)	4.00	4.00	4.15	4.05	4.10

Source: J.P. Morgan, Bloomberg, Datastream

On the **regulation** front, the Swedish presidency presented its new proposal for the European directive on alternative funds. Overall, it is a clear improvement relative to the original proposal drafted earlier this year, addressing most of the initial concerns.

AUD and NZD Commentary

- **We expect the USD to overshoot to the downside in 1H10. Commodity currencies, including AUD and NZD would perform well in this environment, but performace gaps will widen over 2010.**
- **NOK should be the strongest G10 currency in 2010, followed by AUD. NOK stands out among the G10 commodity currencies on valuation and policy support,**
- **A hawkish RBA will help lift AUD, along with an improved risk climate.**
- **CAD and NZD should lag on valuations and dovish central banks.**
- **Technicals: AUD/USD is vulnerable to a short term corrective phase into year-end and into Q1, but the medium term upside bias remains into and suggests a closer test of the 2008 cycle high**
- **NZD/USD sees a similar path with a closer test of .8200/50 zone, but NZD is expected to underperform on the crosses.**

We expect the USD to overshoot to the downside in 2010, with EUR/USD reaching 1.62 and USD/JPY 82 by June (see *Global FX Strategy 2010*, Normand et al, November 24, 2009). While the global economic recovery largely is discounted, the G10 commodity currencies - AUD, CAD, NZD and NOK - should continue to perform well in this environment. However, we do not expect them to match their performance since March when commodity FX out-paced the rest of the G10 by a handsome margin in the headlong rush into risk assets. Moreover, not all commodity currencies are created equal: we expect NOK and AUD to outperform and CAD and NZD over the coming 12 months.

Long-run macro-fundamentals

We expect NOK to be the best-performing G10 currency in 2010. NOK remains undervalued relative to the long-term macroeconomic fundamentals captured in the JP Morgan fair-value model (terms of trade, current account balances, government debt, international debt service obligations, and inflation; see *A new fair-value model for G10 currencies*, de Kock, September 6, 2008). This valuation advantage shown in Tables 1 and 2, largely reflects Norway's strong fiscal and external asset positions. CAD also appears slightly undervalued, but AUD and NZD are overvalued by 6.4% and 3.2% on a real trade-weighted basis, respectively. However, on a bilateral basis against the USD the valuation gap between AUD and NZD is smaller (10.6% vs 6.3%).

Table 1: Commodity currencies actual and fair-value real trade-weighted exchange rates (1Q09 =100), 2Q08-4Q09

		AUD	CAD	NZD	NOK
2Q 08	Actual	134.4	121.1	125.8	117.6
	Fair Value	128.5	127.0	132.2	144.7
1Q 09	Actual	100.0	100.0	100.0	100.0
	Fair Value	117.2	112.0	118.1	122.5
4Q 09*	Actual	125.9	112.5	125.5	112.7
	Fair Value	118.4	117.3	121.6	123.3

Table 2: Commodity currencies actual and fair-value exchange rates vs USD, 2Q08-4Q09

		AUD/USD	USD/CAD	NZD/USD	USD/NOK
2Q 08	Actual	0.94	1.01	0.78	5.08
	Fair Value	0.80	1.02	0.71	5.00
1Q 09	Actual	0.66	1.24	0.53	6.87
	Fair Value	0.77	1.13	0.64	5.42
4Q 09	Actual	0.91	1.06	0.71	5.68
	Fair Value	0.82	1.04	0.67	5.32

Table 3: Commodity-based fair values vs USD and long-run elasticity with respect to commodity price indexes

	AUD	CAD	NZD	NOK
Commodity Index	0.54	-0.54	1.25	
	(8.75)	(10.98)	(6.07)	
Oil Price				0.33
				(3.81)
Commodity-based FV	0.84	1.15	0.69	5.72

Note: The coefficient estimates are derived from a cointegrating equation linking real bilateral exchange rates to inflation-adjusted USD commodity prices.Source: J.P. Morgan

Cyclical drivers: commodities and risk

The G10 commodity currencies as a group are rich relative to cyclical commodity-price drivers. But, on balance the NOK's overvaluation is negligible, while a constructive risk-taking environement favours AUD, offsetting its richness versus commodity prices. Table 3 captures the impact of business-cycle frequency changes in dollar commodity prices on commodity currency valuations against the USD, where we measure Canadian, Australian and New Zealand commodity prices by the BoC, RBA and ANZ commodity prices indices and Norwegian commodity prices by the inflation-adjusted oil price. A 10% commodity price increase appreciates AUD and CAD by about 5% and NZD by 12½%. Norwegian foreign investment of oil revenues caps the currency impact of a 10% oil price increase on NOK at 3.3%.

Table 3 also shows the cyclical fair values for AUD/USD,

USD/CAD, NZD/USD, and USD/NOK implied by October commodity price levels. The four crosses are overvalued relative to their cyclical commodity-price fundamentals. But NOK overvaluation is slight at 0.8%, while the NZD is modestly rich at +2.2%. CAD and AUD appear more significantly overpriced with 7.6% and 7.3% deviations from their commodity-based equilibrium values.

We do not see currency misalignment relative to commodity prices or long-term macroeconomic fundamentals as insurmountable hurdles to commodity FX gains in an environment where the USD overshoots to the downside. Most likely such a USD overshoot will be accompanied by rising USD prices for commodities, partly ratifying commodity currency valuations. By the same token, however, with the possible exception of NOK, the commodity currencies most likely will not escape a 2H10 USD rally.

Moreover, commodity prices, while capturing the trend in commodity FX, fall well short of fully explaining the price action over the business cycle. The disconnect implies that global economic activity affects the attractiveness of commodity producers' local asset markets in ways that are not captured fully or in a timely manner by commodity price moves. One channel appears to be shifts in investor risk aversion and capital flows from core G10 countries. When global equity prices rally on rising growth expectations, the currencies of core G10 countries (EUR, USD, JPY and the CHF) depreciate as local investors diversify into peripheral markets that offer more attractive risk-reward trade-offs.

Table 4 quantifies the commodity-currency impact of capital flows spurred by cyclical shifts in attitudes towards risk as well as the impact of shifts in short-term real interest rate differentials. The measured impact on AUD is striking: A 10% rally in global equities, according to our estimates, would lift AUD/USD by 3% over and above commodity price-driven gains. AUD's gains would be even bigger if Australian equities outperform global indices.

Since the end of December 2008, the MSCI global index has rallied about 19% in local currency terms and the All Ordinaries has outperformed global equities by about 8%. Together these equity price moves are worth 7% on AUD's short-term fair value, enough to put it on par with NOK. Of course, the lift from increased risk appetite fades over time but the small estimated coefficient on the FV deviation indicates that it fades very slowly.

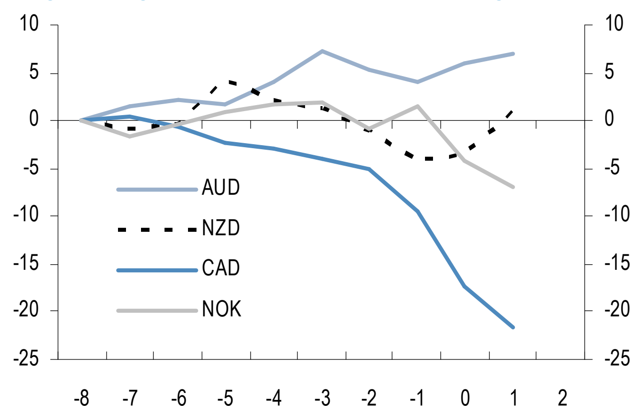
Our estimates suggest that CAD benefits much less from more robust risk-taking. This year's rally in global equities would justify CAD trading 2% rich to commodities. Surprisingly, kiwi and NOK appear not to benefit at all from shifts

Table 4: Short-run elasticity of exchange rates vs USD with respect to equity prices and local-US interest-rate spreads

	AUD	CAD	NZD	NOK
FV deviation	-0.08	-0.04	-0.02	-0.03
	(3.81)	(1.70)	(0.98)	(2.34)
MSCI World	0.30	-0.12		
	(6.12)	(3.24)		
Local-MSCI gap	0.21			
	(4.02)			
Interest Spread			0.67	
			(2.15)	
R^2	0.92	0.98	0.99	0.99

Note: Estimates based on an error-correction equation. FV denotes the equilibrium error form the cointegrating equations show in Table e. Variables are measured in inflation-adjusted terms and as monthly percent changes. Interest rates are 3-month treasury bill rates. Source: J.P. Morgan

Chart 1: Export volumes in the 2008-09 global cycle (cumulative % change from eight quarters before the recession trough)



in global risk aversion, at least to the extent that such shifts are uncorrelated with broad equity indices and commodity prices.

Trade partners count

In contrast to commodity export price trends, which were broadly similar for the G10 commodity producers, export performance diverged dramatically in the global slump and the early stages of recovery. Indeed, export performance held the key to differences in overall economic performance since early 2007 and most likely will remain a major driver of growth divergence as recovery unfolds, lifting the Australian economy and the AUD.

Australian export volumes declined only modestly in the throes of the world recession, as rapidly growing Chinese demand offset the fall-off in purchases from Japan, cushioning Australia's downturn. Exports slipped 3% from 2Q08 to 4Q08, and by mid-2009 already stood 7% above their level a year before the onset of the global recession (see Chart 1).

As a result, Australia has embarked on the recovery path with limited excess capacity, consistent with our call for significant RBA rate hikes.

Canadian export volumes, in contrast, were a major drag on economic activity, plunging more than 20% as US auto demand and residential construction imploded. Norway also suffered, reflecting its close trade ties with Germany and the UK, while domestic forces dominated New Zealand's recession.

Chart 2 underlines that export growth gaps, while less dramatic, will persist in 2010 as EM Asia leads the global recovery. Indeed, in contrast to the US and Europe, EM Asian economic data continue surprising to the upside, suggesting that risks to Australia and New Zealand's exports are skewed to the high side. Strong export performance will lift overall economic activity, easing excess capacity and feeding though to monetary policy. But, perhaps more important, export performance also will drive profits and equity market performance, attracting capital to Australia and, to a lesser extent, New Zealand.

Hawks and doves

The sentiment shift from deep pessimism to discounting a solid, if sub-par, global economic recovery, naturally has turned FX market attention to central banks and the prospect that divergent rate paths will be a key driver of currency trends in 2010. Indeed, while the interest rate spread vs the US is a statistically significant currency driver only for NZD in Table 4, few would deny that a surprise rate hike or a jump in rate expectations will lift the currency, if only temporarily. If so, monetary policy should be a significant source of support for AUD and NOK in 2010.

Australia and Norway experienced the shallowest recessions in the G10. As a result, their margins of excess capacity at the start of the recovery were much smaller than elsewhere in the G10 (2Q09 GDP gaps below 2% and 1% of GDP, respectively). Unsurprisingly, the RBA and the Norges Bank were first out of the starting gate in the race to normalize policy. And the markets price further rate hikes, if more than our economists forecast, which should support AUD and NOK against other G10 currencies that suffered deeper downturns (USD, EUR and SEK, see Chart 3).

Markets also price significant BoC and RBNZ tightening even though the BoC has committed to hold rates steady through June and the RBNZ through year-end. We see significant risk that markets' tightening expectations will be disappointed, given that Canada and New Zealand had greater-than-5% GDP gaps in 2Q 09 and still have below-

Chart 2: Export-weighted economic growth in commodity exporter trading partners (Q4/Q4 %), 2007-2010F

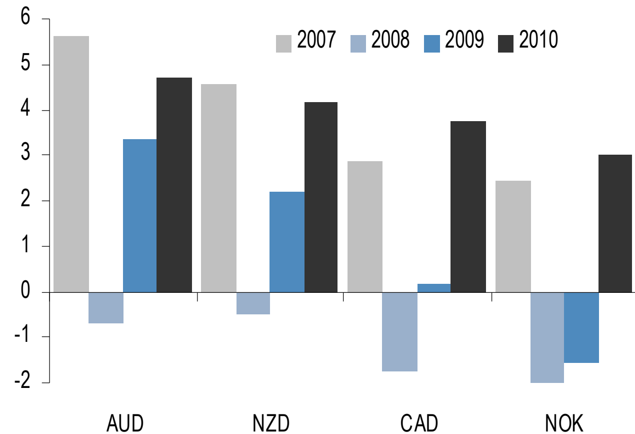


Chart 3: JPM forecast and market pricing for G10 policy rate hikes through Dec 2010 (%)

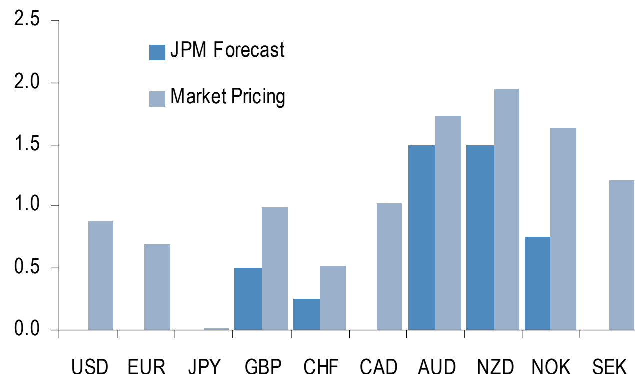
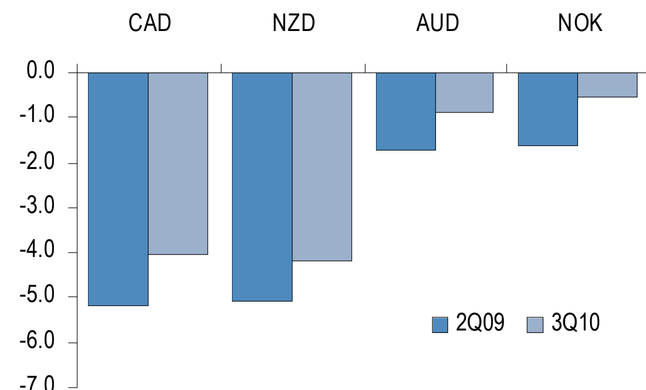


Chart 4: Estimated GDP gaps (% of potential GDP), 2Q09 & 4Q10F



Estimates based on 2Q08 OECD figures and J.P. Morgan forecasts for actual and potential GDP growth. Sources: OECD and J.P. Morgan

target inflation.

When all is said and done, translating excess capacity into policy actions may be more art than science. But we should expect more policy tightening where GDP gaps are the nar-

rowest and are disappearing rapidly (see Chart 4). On this basis, rate hikes and rate expectations should lift NOK and AUD against CAD and NZD next year.

Technical Analysis: 2010 Outlook

AUD

AUD has been the best performer in G10 this year as the bullish cyclical shift and steady improvement in risk sentiment led to a one-way advance from the February/ March lows. Note that a November close at current levels would confirm an unprecedented ten consecutive higher monthly closes for **AUD/USD**. Moreover, this uptrend violated a previous month's low just once during that timeframe. While a simplistic explanation of the price action, it demonstrates the strength of the overall trend.

Moreover, the sustained rally in commodities and in particular precious metals contributed to the favourable setup highlighted by the breakout and acceleration to new all-time highs for Gold. Despite the medium term bullish setup, we still sense the short term framework can allow for a consolidation phase into year-end and into the early-part of 2010. This is in line with the loss of upward momentum and the approach of macro targets closer to the 2008 highs.

The .8860 support zone will be key as breaks would suggest a deeper pullback is possible into the .8500 area, if not lower. Still, the medium term setup calls for new highs and will be looking for a setup to establish long positions for the extension. In turn, we see potential for the rally to retest of the 2008 cycle highs near .9850 with some risk for a closer test of 1.00.

In that regard, our medium term trend filters continue to point to further upside. Note that our basic moving average system which is used to define the medium term trend maintains the current Buy signal from late-March.

Chart 1: AUD/USD- Weekly Chart –Short term corrective phase should ultimately lead to a test, if not break of the 2008 high.

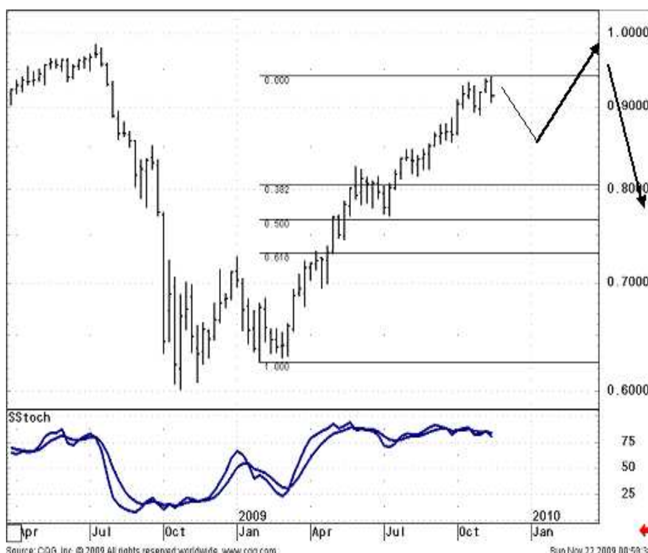


Chart 2: NZD/USD- Daily Chart –The failure below the October high points to the short term corrective phase and underperformance; still viewed within the context of the medium term advance.

NZD

NZD follows AUD in the standings for best performer for 2009. While the trends are still intact, our short term view for the USD opens the window for a corrective phase. However, this bias is still viewed within the context of the medium term uptrend.

The struggles to sustain above the next line of key targets/ resistance levels (76.4% retracement at .7430) in line with the loss of upward momentum and the recent failure below the October high are consistent with the setup for a short term correction. Support near .7000 is important for this view and will likely define whether a deeper pullback can develop into the .6700 area and ideal basing zone for continuation of the medium term rally phase. As such, we see medium term targets in the .8000/.8200 zone. The concern for NZD is the relative weakness that has developed over the past month which points to a potential underperformance bias into 2010. In that regard, basing patterns are developing in the likes of EUR/NZD and GBP/NZD following the bullish reversals in October.

Also, one of our favourite trades is bullish AUD/NZD as we sense the cross can retest, if not through the important 1.30 medium term range highs. In turn, while we see potential for NZD/USD to resume the bull trend beyond this short term corrective phase, we sense the upward path will be more of a grind given the patterns in the crosses. Also, a violation of the key .6600 area (38.2% retracement from March and July breakout zone) would question whether prices can extend to new highs.

JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Carlton Strong (1-212) 834-5612
carlton.m.strong@jpmorgan.com

Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2008	2009	2010	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	3Q09	4Q09	2Q10	4Q10
The Americas														
United States	0.4	**-2.5 ↓**	**3.2 ↓**	-0.7	**2.8 ↓**	3.5	3.0	4.0	4.0	3.5	-1.6	1.2	2.2	1.1
Canada	0.4	-2.6	2.4	-3.4	0.5	3.0	3.0	3.0	3.5	4.0	-0.9	0.8	1.4	2.3
Latin America	3.8	**-3.1 ↑**	**4.0 ↑**	**2.0 ↑**	**5.7 ↑**	**6.0 ↑**	4.7	3.1	4.0	1.9	5.9	5.6	6.8	7.2
Argentina	6.8	**-4.0 ↑**	**4.0 ↑**	1.1	**-14.0 ↓**	-4.0	12.0	10.0	6.0	4.0	5.9	6.0	10.0	10.2
Brazil	5.1	0.3	5.0	7.8	7.2	6.7	4.3	5.0	4.0	4.0	4.4	4.2	4.5	4.7
Chile	3.2	-1.5	5.0	-1.2	4.6	**10.0 ↑**	6.0	**4.0 ↓**	**2.0 ↓**	3.0	-0.6	**-0.8 ↑**	2.0	**2.6 ↓**
Colombia	2.4	-0.5	3.0	2.7	1.9	3.2	3.5	4.3	5.5	4.5	3.2	3.3	3.9	4.3
Ecuador	6.5	-1.0	1.5	-1.0	-2.0	0.0	2.0	2.5	4.0	4.0	3.5	3.5	2.4	4.0
Mexico	1.3	-7.0	3.5	**-1.1 ↑**	**12.2 ↑**	7.5	3.7	-0.6	3.3	-0.9	5.1	4.6	5.3	5.2
Peru	9.8	1.0	5.4	-1.6	8.0	13.0	3.0	3.5	3.5	4.0	1.9	1.1	1.5	2.0
Venezuela	4.8	-2.5	1.5	-4.1	-7.8	5.0	3.0	3.0	5.0	0.0	28.7	29.0	34.2	37.9
Asia/Pacific														
Japan	-0.7	-5.2	2.4	2.7	4.8	2.5	2.5	1.5	1.5	2.0	-2.2	-1.8	-1.8	-1.3
Australia	2.4	1.0	2.9	2.5	1.2	3.8	2.1	2.4	4.4	6.2	1.3	2.1	2.5	2.6
New Zealand	0.1	-1.3	2.8	0.3	2.5	2.1	2.6	4.3	3.4	2.8	1.7	2.6	2.4	1.7
Asia ex Japan	5.8	4.2	7.3	**12.4 ↓**	**9.3 ↓**	**5.4 ↑**	6.9	**7.1 ↑**	7.3	6.9	1.4	2.7	4.3	3.4
China	9.0	8.6	9.5	14.8	10.0	9.1	9.0	9.5	9.3	8.7	-1.3	0.9	3.2	2.7
Hong Kong	2.4	-3.3	4.5	14.8	1.6	5.0	4.2	4.0	3.8	3.5	-0.9	-0.4	0.6	2.1
India	6.1	6.0	7.5	6.7	9.0	-1.0	10.0	7.0	9.6	9.0	11.8	12.2	11.9	6.2
Indonesia	6.1	4.3	5.3	4.3	5.3	3.5	5.5	6.0	6.0	6.0	2.8	2.8	4.9	6.0
Korea	2.2	0.2	4.7	11.0	12.3	4.0	2.0	3.5	3.5	3.5	2.0	2.5	3.0	3.3
Malaysia	4.6	-2.4	5.0	10.1	9.4	4.5	1.6	4.9	4.9	4.9	-2.4	-1.2	0.5	1.5
Philippines	3.8	1.5	5.0	**7.0 ↓**	**4.1 ↑**	4.0	5.0	5.0	5.0	5.0	0.3	3.0	3.6	3.7
Singapore	1.1	-2.1	6.5	21.7	14.2	-3.6	8.2	7.0	4.9	4.9	-0.4	-0.8	1.9	1.8
Taiwan	**0.7 ↑**	**-3.0 ↑**	5.8	**18.8 ↓**	**8.3 ↓**	**6.0 ↑**	3.8	**5.0 ↑**	**4.6 ↑**	**3.5 ↓**	-1.3	-1.0	1.8	2.1
Thailand	2.6	-3.1	6.1	**9.0 ↓**	**5.5 ↓**	5.3	4.9	5.7	7.0	7.0	-2.2	1.4	4.6	4.0
Africa/Middle East														
Israel	4.0	0.0	3.0	1.0	2.2	2.5	3.0	3.0	3.0	3.0	3.2	3.3	3.4	3.3
South Africa	3.1	-2.0	3.0	-3.0	0.5	3.4	4.4	3.8	3.6	4.1	6.4	6.2	4.3	4.8
Europe														
Euro area	0.6	-3.9	2.5	-0.7	1.5	2.5	3.0	3.0	3.0	2.5	-0.4	0.3	0.9	1.2
Germany	1.0	-4.7	3.4	1.8	2.9	4.0	3.5	3.5	3.5	2.5	-0.4	0.3	0.5	0.3
France	0.3	-2.3	2.5	1.1	1.1	2.5	3.0	3.0	3.0	2.5	-0.5	0.6	1.0	0.7
Italy	-1.0	-4.8	1.7	-1.9	2.4	1.0	2.0	2.0	2.0	2.5	0.1	1.0	1.4	1.0
Norway	**2.1 ↓**	-1.1	**2.8 ↓**	1.3	**2.0 ↓**	3.0	3.0	3.0	3.0	3.0	1.8	1.3	1.0	0.4
Sweden	**-0.5 ↓**	-4.2	**3.2 ↓**	**1.2 ↑**	**0.7 ↓**	4.0	4.0	3.5	3.5	3.0	-1.1	-0.3	0.8	0.5
Switzerland	1.8	-1.3	2.2	-1.0	1.8	2.3	2.5	2.5	3.0	3.0	-1.0	-0.4	0.6	0.7
United Kingdom	0.6	**-4.6 ↑**	1.6	-2.3	**-1.2 ↑**	2.0	2.0	2.5	2.8	3.5	1.5	2.2	2.3	1.4
Emerging Europe	4.1	-5.3	4.0	2.1	4.7	4.9	3.4	3.2	3.3	3.6	7.0	6.2	5.2	5.3
Bulgaria	6.0	-5.8	-2.0	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	2.7	-4.0	2.5	1.2	3.2	5.0	2.8	2.5	2.2	2.0	0.1	0.6	1.9	3.6
Hungary	0.6	-6.5	1.0	-7.9	-7.0	3.5	3.0	2.5	2.5	3.5	5.0	5.1	3.7	2.8
Poland	5.0	1.7	3.2	2.8	5.5	3.0	2.5	3.0	3.5	3.5	3.5	3.4	2.1	2.3
Romania	7.1	-6.0	2.0	...	...	...	...	...	...	...	5.0	4.7	5.5	6.5
Russia	5.6	-8.5	5.0	4.5	7.9	6.5	4.5	4.0	4.0	4.5	11.4	9.5	7.0	7.4
Turkey	0.9	-5.3	5.0	...	...	...	...	...	...	...	5.3	5.0	6.3	5.2
Global	1.3	-2.5	**3.3 ↓**	**1.4 ↑**	**3.4 ↓**	3.4	3.4	3.6	3.7	3.4	-0.1	1.2	1.9	1.6
Developed markets	0.4	-3.4	2.7	-0.3	**2.3 ↓**	2.9	2.8	3.1	3.2	3.0	-1.0	0.5	1.1	0.8
Emerging markets	**5.0 ↑**	**0.7 ↑**	5.8	**7.6 ↑**	**7.3 ↓**	**5.4 ↑**	5.6	5.3	5.7	5.0	3.5	4.0	5.0	4.6

J.P. Morgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Sam Conway (1-212) 834-9123
samuel.e.conway@jpmorgan.com

Global Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Global	GDP-weighted average	1.30	-342				1.30	1.32	1.36	1.43	1.48
excluding US	GDP-weighted average	1.85	-258				1.85	1.88	1.94	2.04	2.12
Developed	GDP-weighted average	0.49	-365				0.50	0.51	0.52	0.54	0.57
Emerging	GDP-weighted average	4.50	-250				4.46	4.56	4.71	4.94	5.13
Latin America	GDP-weighted average	5.72	-310				5.72	6.10	6.63	6.93	7.01
CEEMEA	GDP-weighted average	4.62	-239				4.46	4.33	4.24	4.57	4.87
EM Asia	GDP-weighted average	4.00	-232				4.00	4.07	4.17	4.34	4.53
The Americas	GDP-weighted average	0.75	-484				0.75	0.79	0.85	0.88	0.89
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	16 Dec 09	on hold	0.125	0.125	0.125	0.125	0.125
Canada	Overnight funding rate	0.25	-425	21 Apr 09 (-25bp)	8 Dec 09	on hold	0.25	0.25	0.25	0.25	0.25
Brazil	SELIC overnight rate	8.75	-275	22 Jul 09 (-50bp)	9 Dec 09	Jan 10 (+50bp)	8.75	9.75	10.75	10.75	10.75
Mexico	Repo rate	4.50	-275	17 Jul 09 (-25bp)	15 Jan 10	Jun 10 (+25bp)	4.50	4.50	4.75	5.25	5.25
Chile	Discount rate	0.50	-500	9 Jul 09 (-25bp)	10 Dec 09	2Q 10 (+50bp)	0.50	0.50	1.00	**1.75**	**2.50**
Colombia	Repo rate	**3.50**	-575	**23 Nov 09 (-50bp)**	18 Dec 09	on hold	**3.50**	**3.50**	**3.50**	**3.50**	**3.50**
Peru	Reference rate	1.25	-350	6 Aug 09 (-75bp)	10 Dec 09	**Jul 10 (+25bp)**	1.25	1.25	1.25	**2.00**	**2.75**
Europe/Africa	GDP-weighted average	1.34	-325				1.32	1.31	1.31	1.39	1.46
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	3 Dec 09	on hold	1.00	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	0.50	-525	5 Mar 09 (-50bp)	10 Dec 09	3Q 10 (+25bp)	0.50	0.50	0.50	0.75	1.00
Sweden	Repo rate	0.25	-325	2 Jul 09 (-25bp)	16 Dec 09	on hold	0.25	0.25	0.25	0.25	0.25
Norway	Deposit rate	1.50	-325	28 Oct 09 (+25bp)	16 Dec 09	3 Feb 10 (+25bp)	1.50	1.75	2.00	2.25	2.25
Czech Republic	2-week repo rate	1.25	-200	6 Aug 09 (-25bp)	16 Dec 09	2Q 10 (+25bp)	1.25	1.25	1.75	2.50	3.00
Hungary	2-week deposit rate	**6.50**	-125	**23 Nov 09 (-50bp)**	21 Dec 09	**21 Dec 09 (-50bp)**	6.00	5.50	5.50	5.50	5.50
Israel	Base rate	**1.00**	-300	**23 Nov 09 (+25bp)**	28 Dec 09	25 Jan 10 (+25bp)	**1.00**	**1.75**	**2.50**	3.25	4.00
Poland	7-day intervention rate	3.50	-125	24 Jun 09 (-25bp)	23 Dec 09	3Q 10 (+25bp)	3.50	3.50	3.50	4.00	4.50
Romania	Base rate	8.00	100	29 Sep 09 (-50bp)	5 Jan 09	1Q 10 (-25bp)	8.00	7.75	**7.25**	**7.00**	7.00
Russia	1-week deposit rate	**4.25**	100	**24 Nov 09 (-50bp)**	Dec 09	**Dec 09 (-25bp)**	4.00	3.50	3.00	3.00	3.00
South Africa	Repo rate	7.00	-300	13 Aug 09 (-50bp)	17 Dec 09	4Q 10 (+50bp)	7.00	7.00	7.00	7.00	7.50
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	10 Dec 09	on hold	0.25	0.25	0.25	0.25	0.25
Turkey	Overnight borrowing rate	6.50	-1100	19 Nov 09 (-25bp)	17 Dec 09	3Q 10 (+50bp)	6.50	6.50	6.50	7.50	8.00
Asia/Pacific	GDP-weighted average	2.08	-147				2.09	2.14	2.21	2.31	2.42
Australia	Cash rate	3.50	-300	3 Nov 09 (+25bp)	1 Dec 09	1 Dec 09 (+25bp)	3.75	4.00	4.50	4.75	5.00
New Zealand	Cash rate	2.50	-575	30 Apr 09 (-50bp)	9 Dec 09	8 Jul 10 (+50bp)	2.50	2.50	2.50	3.50	4.00
Japan	Overnight call rate	0.10	-40	19 Dec 08 (-20bp)	18 Dec 09	on hold	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	17 Dec 09	on hold	0.50	0.50	0.50	0.50	0.50
China	1-year working capital	5.31	-171	22 Dec 08 (-27bp)	2Q 09	3Q 10 (+27bp)	5.31	5.31	5.31	5.58	5.85
Korea	Base rate	2.00	-300	12 Feb 09 (-50bp)	9 Dec 09	1Q 10 (+25bp)	2.00	2.25	2.50	2.75	3.00
Indonesia	BI rate	6.50	-175	5 Aug 09 (-25bp)	3 Dec 09	on hold	6.50	6.50	6.50	6.50	6.50
India	Repo rate	4.75	-300	21 Apr 09 (-25bp)	1Q 10	1Q 10 (+25bp)	4.75	5.00	5.25	5.25	5.25
Malaysia	Overnight policy rate	2.00	-150	24 Feb 09 (-50bp)	Dec 09	2Q 10 (+25bp)	2.00	2.00	2.25	2.50	3.00
Philippines	Reverse repo rate	4.00	-200	9 Jul 09 (-25bp)	17 Dec 09	4Q 10 (+25bp)	4.00	4.00	4.00	4.00	4.25
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	2 Dec 09	2Q 10 (+25bp)	1.25	1.25	1.50	1.75	2.00
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	4Q 09	4Q 10 (+12.5bp)	1.25	1.25	1.25	1.25	1.375

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

Economic forecasts - Australia

Australia: economic projections *percentage change over previous period, seasonally adjusted annual rates, un*

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	1.2	3.4	4.2	2.5	3.4	3.4	3.8	3.4	2.5	4.8	3.8	4.9	4.6	5.8
Private consumption	1.0	1.3	2.0	3.4	-2.8	0.0	2.4	3.2	1.6	1.2	2.8	1.2	2.0	2.4
Construction investment	-2.6	5.8	11.8	-6.9	-1.2	3.6	8.1	8.8	11.5	9.7	11.5	14.1	13.2	13.5
Equipment investment	-7.4	-5.6	15.8	24.2	-22.8	-4.1	-10.1	-8.1	0.8	17.9	17.8	37.8	13.1	4.2
Public investment	-1.3	5.8	16.3	3.3	-4.8	0.0	2.8	13.4	19.2	12.2	14.6	17.1	19.8	22.6
Government consumption	2.0	3.4	1.2	3.2	-0.4	1.8	7.8	4.5	0.9	0.5	0.8	1.2	1.3	1.3
Exports of goods & services	2.4	3.5	3.4	3.9	3.6	4.9	2.4	3.2	4.1	3.2	2.8	4.1	3.2	4.1
Imports of goods & services	-9.8	4.4	5.5	8.6	7.0	4.1	3.2	2.0	6.1	4.9	2.0	8.2	10.4	6.1
Contributions to GDP growth:														
Domestic final sales	-1.0	3.1	5.1	2.8	3.7	0.6	3.3	4.0	3.8	4.1	5.5	6.6	5.6	5.4
Inventories	-0.7	0.6	-0.4	0.7	0.4	2.7	0.7	-0.7	-0.8	1.0	-1.8	-0.7	0.6	0.9
Net trade	2.9	-0.2	-0.5	-1.0	-0.7	0.1	-0.2	0.2	-0.5	-0.4	0.1	-0.9	-1.6	-0.5
GDP deflator (%oya)	0.3	1.1	2.4	0.3	-2.0	-2.2	-0.9	1.7	1.7	2.0	2.2	2.4	2.5	2.5
Consumer prices (%oya)	1.8	2.6	2.8	1.5	1.3	2.2	2.5	2.6	2.5	2.6	2.7	3.0	2.8	2.6
Producer prices (%oya)	-4.9	0.3	3.5	-6.4	-7.2	-4.7	-0.9	0.7	0.4	1.0	2.5	3.5	4.0	4.0
Trade balance (A$ bil, sa)	-2.3	-5.0	-8.3	-1.9	-2.5	-2.3	-1.7	-0.8	-1.3	-1.2	-0.9	-2.1	-2.4	-3.0
Current account (A$ bil, sa)	-67.0	-55.6	-63.9	-13.3	-14.4	-14.6	-14.1	-13.2	-13.9	-14.3	-14.4	-15.9	-16.4	-17.2
as % of GDP	-6.2	-4.4	-4.8	-4.5	-4.8	-4.8	-4.6	-4.2	-4.4	-4.5	-4.4	-4.8	-4.8	-5.0
3m eurodeposit rate (%)*	6.0	4.8	5.0	3.5	3.4	4.0	4.4	4.8	5.0	5.0	5.0	5.0	5.0	5.0
10-year bond yield (%)*	5.6	5.8	5.8	5.5	5.1	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8
US$/A$*	0.75	1.00	0.92	0.82	0.88	0.91	0.95	1.02	1.01	1.00	0.98	0.95	0.90	0.85
Commonwealth budget (FY, A$ bil)	-27.0	-43.0	-29.0											
as % of GDP	-2.2	-3.4	-2.2											
Unemployment rate	5.8	6.5	6.0	5.7	5.8	6.2	6.4	6.5	6.5	6.4	6.2	6.0	6.0	5.8
Industrial production	-5.6	1.3	2.5	2.9	3.0	2.0	1.0	0.0	-1.0	-2.0	0.0	1.0	2.0	3.0

*All financial variables are period averages

Australia - summary of main macro views

- The Australian economy has emerged from the global downturn largely unscathed as one of the few economies to **avoid back-to-back falls in GDP**. Growth will accelerate in 2010 and 2011.
- We expect **business investment** to be broadly unchanged at elevated levels in 2009-10, now that firms have upgraded their spending plans in the Q3 Capex survey. The longer term investment outlook has brightened significantly, with mining leading the way.
- With **labour force participation falling** only slowly, the jobless rate, however, will continue rising. That said, the fall in hours worked is spreading the pain.
- On **housing**, the expanded first home owners' grant has sucked forward buyers from 2010. The mini-boom will end in tears as the jobless rate rises, along with interest rates.
- The **consumer** is yet to be fully tested—households have been on financial "life support" from the RBA and the government's fiscal support. Consumer confidence, though, remains high.
- **Export volumes** have held up owing mainly to firm demand from Asia, but the terms of trade has tumbled.
- The **RBA** kicked off the tightening cycle with a 25bp rate hike in October, making it the first central bank in the G20 to tighten policy. We expect another 25bp rate hike tomorrow.
- Having front-loaded the **policy support**, the government now is starting to wind back the fiscal stimulus.

Economic forecasts - New Zealand

New Zealand: economic projections *percentage change over previous period, seas. adjusted annual rates, unless stated*

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.3	2.8	3.2	0.3	2.6	2.2	3.6	3.1	3.0	2.7	2.9	4.6	3.2	2.6
Private consumption	-1.1	0.5	0.6	1.7	0.5	0.2	0.4	0.8	0.2	0.6	0.7	0.5	0.9	0.6
Fixed Investment	-14.8	-2.6	4.1	0.3	-15.0	-7.7	-2.0	4.0	3.5	4.7	2.2	4.1	6.0	7.3
Residential construction	-19.7	-1.6	5.2	-10.0	-9.6	-6.0	-2.0	4.0	6.0	8.0	3.2	4.8	6.0	4.0
Other fixed investment	-13.7	-2.7	3.9	2.5	-16	-8.0	-2.0	4.0	3.0	4.0	2.0	4.0	6.0	8.0
Inventory change (NZ$ bil, saar)	-2.7	-0.6	0.0	-1.1	-0.8	-0.6	-0.3	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0
Government spending	1.1	0.5	0.6	-4.0	0.9	0.9	0.8	0.8	0.8	0.8	0.4	0.8	0.0	0.2
Exports of goods & services	2.1	9.7	11.0	20.3	10.0	11.0	8.0	10.0	8.0	5.0	12.0	16.0	15.0	10.0
Imports of goods & services	-17.0	5.5	6.8	-14.2	3.0	7.0	8.0	9.0	6.0	7.0	5.0	6.5	12.0	4.0
Contributions to GDP growth:														
Domestic final sales	-5.5	-0.2	1.2	-0.4	-3.1	-1.5	-0.1	1.4	1.0	1.5	0.9	1.3	1.8	0.3
Inventories	-3.1	1.6	0.4	-9.8	3.5	2.4	3.6	1.2	1.2	1.8	-0.5	-0.1	0.0	0.0
Net trade	7.2	1.4	1.6	11.3	2.2	1.3	0.1	0.4	0.8	-0.6	2.4	3.3	1.4	2.3
GDP deflator (%oya)	2.2	2.0	2.2	2.1	3.2	0.9	0.7	2.0	2.6	2.8	2.8	2.4	1.9	1.6
Consumer prices	2.3	2.2	3.0	2.3	5.3	1.6	2.0	2.2	2.1	2.5	4.1	3.3	2.9	2.4
%oya	2.3	2.4	3.0	1.9	1.7	2.6	2.8	2.8	2.0	2.2	2.7	3.0	3.2	3.2
Trade balance (NZ$ bil, sa)	4.2	2.2	0.4	0.8	1.4	1.1	0.7	0.6	0.5	0.4	0.4	0.2	-0.1	-0.1
Current account (NZ$ bil, sa)	-2.4	-3.4	-10.6	-0.6	0.1	0.2	-1.2	-0.1	-0.4	-1.7	-2.1	-5.2	-2.1	-1.2
as % of GDP	-1.4	-2.3	-2.9	-1.4	0.2	0.4	-0.2	-0.8	-3.7	-4.3	-4.3	-2.4	-2.7	-2.4
Yield on 90-day bank bill (%)*	3.0	2.9	3.3	2.8	2.8	2.8	3.0	3.1	2.8	2.8	3.0	3.1	3.4	3.6
10-year bond yield (%)*	5.5	5.9	6.0	5.7	5.7	5.8	6.0	6.0	5.7	5.8	6.0	6.0	6.1	6.1
US$/NZ$*	0.61	0.75	0.70	0.60	0.68	0.64	0.73	0.76	0.76	0.74	0.72	0.70	0.70	0.68
Commonwealth budget (NZ$ bil)	-7.5	-8.1	-6.2											
as % of GDP	-4.2	-4.3	-3.1											
Unemployment rate	6.2	7.2	7.0	6.0	6.5	6.8	7.0	7.2	7.3	7.3	7.2	7.1	6.9	6.6

*All financial variables are period averages

New Zealand - summary of main macro views

- The New Zealand **economy** expanded in the June quarter, after five straight quarters of contraction. The sharp run down in inventories in 2Q is positive news for GDP growth in 3Q and 4Q.
- **Business confidence** has improved markedly in recent months and, despite easing slightly in November, firms remain upbeat about the economic outlook. This mainly owes to continued improvement in economic conditions in Australia and New Zealand's other major trading partners in Asia.
- Even though firms are upbeat, **investment** will remain a drag on GDP growth this year; this, of course, has negative implications for the employment outlook. We expect the unemployment rate to peak at7.3% in 2010.
- Rising **unemployment** and soft wage growth will continue to squeeze households' incomes, meaing private consumption will remain subdued in coming quarters.
- The **RBNZ** has delivered 575bp of policy easing since mid-2008. We believe the RBNZ will begin tightening policy in mid-2010. The recent pick up in housing market activity, if continued into 2010, will increase the risk of an earlier move.
- **Inflation** remained in the bottom half of the RBNZ's 1-3%oya target range in 3Q. The 1.7%oya headline was lifted by one-off influences that pushed prices higher. Nontradable inflation remained elevated but has come down significantly and should meander even lower in coming quarters.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
30 Nov **Australia:** Pvt. Sector credit (11:30 am) Oct 0.2 %m/m, sa Inventories (11:30 am) 3Q -2.0 %q/q, sa Company profits (11:30 am) 3Q -2.0 %q/q, sa **New Zealand:** Building permits (10:45 am) Oct	**1 Dec** **Australia:** Building approvals (11:30 am) Oct -5.0 %m/m, sa RBA cash target (2:30 pm) Dec 25 bp hike expected	**2 Dec**	**3 Dec** **Australia:** Retail sales (11:30am) Oct 0.3 %m/m, sa **New Zealand:** ANZ commodity price (2:00 pm) Nov	**4 Dec**
7 Dec **Australia:** ANZ job ads (11:30 am) Nov	**8 Dec** **Australia:** NAB bus. Confidence (11: 30 am) Nov Current account balance (11: 30 am) 3Q **New Zealand:** Mfg. activity (10:45 am) 3Q	**9 Dec** **Australia:** Westpac consumer confidence (10: 30 am) Dec Housing finance approvals (11:00 am) Oct Trade balance (11: 30 am) Oct	**10 Dec** **Australia:** Unemployment rate (11:30 am) Nov **New Zealand:** RBNZ official cash rate (9:00 am) Dec Terms of trade (10:45 am) 3Q	**11 Dec**
14 Dec **New Zealand:** QV house price Nov Retail sales (10:45 am) Oct	**15 Dec** **Australia:** Dwelling starts (11: 30 am)3Q	**16 Dec** **Australia:** Westpac leading index (11: 30 am) Oct GDP (11: 30 am) 3Q	**17 Dec** **New Zealand:** NBNZ business conf.(2:00 pm) Nov	**18 Dec**
21 Dec **Australia:** New motor vehicle sales (10: 30 am) Nov **New Zealand:** Visitor arrivals (10:45 am) Nov Credit card spending (2:00 pm) Nov	**22 Dec** **New Zealand:** Current account (10:45 am) 3Q Westpac NZ consumer Confidence (2:00 pm) 4Q	**23 Dec** **New Zealand:** GDP (10:45 am) 3Q	**24 Dec**	**25 Dec** *Holiday Australia, New Zealand,*

JPMorgan Chase Bank, New York
Sam Conway (1-212) 834-9123
samuel.e.conway@jpmorgan.com

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
30 Nov - 4 Dec	**30 November**	**1 December**	**2 December**	**3 December**	**4 December**
	Canada: GDP (3Q) **Euro area:** HICP flash (Nov) **India:** GDP (3Q) **Japan** • IP, Nom wages (Oct) • PMI mfg (Nov) • Shirakawa speech **Korea:** IP (Oct) **Poland:** GDP (3Q) **United Kingdom** • Mortgage approvals (Oct) **United States** • Chicago PMI (Nov)	**Australia:** RBA meeting **China:** PMI mfg (Nov) **Germany** • Retail sales (Oct) **Japan:** Auto regs (Nov) **Korea** • CPI (Nov) • Trade balance (Nov) **UK:** PMI mfg (Nov) **United States** • Construction spend (Oct) • ISM mfg (Nov) • Light vehicle sales (Nov) • Pending homes (Oct) **Euro area** • PMI mfg final (Nov) • Unemployment (Oct)	**Brazil** • IP (Oct) **Japan** • Reuters Tankan (Nov) **Korea** • GDP (3Q) **Singapore** • PMI (Nov) **Thailand** • BoT meeting **United States** • ADP employment (Nov) • Beige Book	**Australia:** Retail sales (Oct) **Euro area** • GDP prelim (3Q) • PMI services final (Nov) • Retail sales (Oct) • ECB meeting **Indonesia:** BI meeting **Japan** • MoF corp survey (3Q) • PMI services (Nov) **Turkey:** CPI (Nov) **UK:** PMI services (Nov) **United States** • ISM nonmfg (Nov) • Prod and costs rev (3Q) • Bernanke Senate confirmation hearing	**Canada** • Employment (Nov) • Ivey PMI (Nov) **United Kingdom** • New car regs (Nov) **United States** • Employment (Nov) • Factory orders (Oct)
7 - 11 December	**7 December**	**8 December**	**9 December**	**10 December**	**11 December**
Brazil • Auto report (Nov) **Japan** • Cabinet Office private consumption index (Oct)	**Germany** • Mfg orders (Oct) **Taiwan** • CPI (Nov) • Trade balance (Nov) **United States** • Consumer credit (Oct) • Bernanke speech	**Canada** • BoC meeting **Germany** • IP (Oct)	**Brazil** • IPCA (Nov) • COPOM meeting **Germany** • CPI final (Nov) • Foreign trade (Oct) **Japan** • GDP 2nd est (3Q) **Mexico** • CPI (Nov) **United Kingdom** • Trade balance (Oct)	**Brazil** • GDP (3Q) **Japan** • Machinery orders (Oct) **Turkey** • GDP (3Q) **United States** • International trade (Oct) **Central bank meetings** • Chile, Korea, New Zealand, Peru, Switzerland, UK	**China** • CPI, FAI, IP, Retail sales, Trade bal (Nov) **United States** • Bus inventories (Oct) • Consumer sent (Dec) • Import prices (Nov) • Retail sales (Nov)

Analysts' Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors and overall firm revenues. The firm's overall revenues include revenues from its investment banking and fixed income business units. **Principal Trading:** JPMorgan and/or its affiliates normally make a market and trade as principal in fixed income securities discussed in this report. **Legal Entities:** JPMorgan is the marketing name for JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. J.P.Morgan Securities Inc. is a member of NYSE and SIPC. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. J.P. Morgan Futures Inc., is a member of the NFA. J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority. JPMorgan Chase Bank, Singapore branch is regulated by the Monetary Authority of Singapore. J.P. Morgan Securities Asia Private Limited is regulated by the MAS and the Financial Services Agency in Japan. J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) (JPMSAL) is a licensed securities dealer. J.P.Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA), licence number 35-07079. **General:** Information has been obtained from sources believed to be reliable but JPMorgan does not warrant its completeness or accuracy except with respect to disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer. Opinions and estimates constitute our judgment at the date of this material and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. JPMorgan and/or its affiliates and employees may act as placement agent, advisor or lender with respect to securities or issuers referenced in this report.. Clients should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This report should not be distributed to others or replicated in any form without prior consent of JPMorgan. **U.K. and European Economic Area (EEA):** Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with these persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. **Korea**: This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. Revised January 16, 2009. Copyright 2009 JPMorgan Chase Co. All rights reserved. Additional information available upon request.

Economic Research, Emerging Markets Research and Global FX Strategy at JPMorgan

Global Economics

Chief Economist
Bruce Kasman, New York (1-212) 834-5515

Economics: Global

David Hensley (1-212) 834-5516
Joseph Lupton (1-212) 834-5735
Sam Conway (1-212) 834-9123

Data and Forecast Systems

Carlton Strong (1-212) 834-5612
Donald Martis (1-212) 834-5667
Silvana Dimino (1-212) 834-5684

Economics: United States and Canada

United States

Robert Mellman, New York (1-212) 834-5517
Michael Feroli (1-212) 834-5523
Abiel Reinhart (1-212) 834-5614

Canada

Sandy Batten, New York (1-212) 834-9645

Economics: Latin America

Brazil

Fabio Hashizume, São Paulo (55-11) 3048-3634
Julio Callegari, São Paulo (55-11) 3048-3369

Colombia, Ecuador, Venezuela, Peru

Luis Oganes, New York (1-212) 834-4326
Benjamin Ramsey, New York (1-212) 834-4308
Julio Callegari, São Paulo (55-11) 3048-3369

Argentina, Chile
Vladimir Werning, New York (1-212) 834-8144
Mexico
Alfredo Thorne, Mexico City (525) 540-9558

Economics: Asia/Pacific

Head of Japan
Masaaki Kanno, Tokyo (81-3) 6736-1166
Japan

Masamichi Adachi, Tokyo (81-3) 6736-1172
Miwako Nakamura, Tokyo (81-3) 6736-1167

Australia, New Zealand

Stephen Walters, Sydney (61-2) 9220 -1599
Helen Kevans (61-2) 9220-3250

Emerging Markets Research

Head of Emerging Markets Research
Joyce Chang (1-212) 834-4203
Head of Emerging Asia Economic Research
David G. Fernandez, Singapore, (65) 6882-2461

Greater China

Frank Gong, Hong Kong (852) 2800-7006
Qian Wang, Hong Kong (852) 2800-7009

Korea
Jiwon Lim, Seoul (822) 758-5509
James Lee, Seoul (822) 758-5512

India
Jahangir Aziz, Mumbai (91-22) 6639-8033
Gunjan Gulati, Mumbai (91-22) 6639-3125

Indonesia, Malaysia, Philippines, Singapore, Thailand

Matt Hildebrandt (65) 6882-2253

Emerging Markets FX Strategy
Claudio Piron (65) 6882-2218
Yen Ping Ho (65) 6882-2216

Economics: Europe/Africa

Head of Western Europe
David Mackie, London (44-20) 7325-5040

United Kingdom, Switzerland

Malcolm Barr, London (44-20) 7777-1080
Allan Monks, London (44-20) 7777-1188

Euro area

Marta Bastoni, London (44-20) 7325-9114
Greg Fuzesi London (44-20) 7777-4792

Scandinavia

Nicola Mai, London (44-20) 7777-3467

Czech Republic, Hungary, Poland, Slovakia

Nora Szentivanyi, London (44-20) 7777-3981
Miroslav Plohjar, London (44-20) 7325-0745

CEEMEA

Michael Marrese, New York (1-212) 834-4876
Eva Sanchez, New York (1-212) 834-8217

Turkey, Bulgaria, the Baltics

Yarkin Cebeci, Istanbul (90-212) 326-8590

Russia, Ukraine, Bulgaria, Kazakhstan

Nina Chebotareva, Moscow (7-095) 937-7321
Anatoliy Shal (7-495) 937-7321

Africa
Graham Stock (44-20) 7777-3430
Sonja Keller (27-11) 507-0376

Global FX Strategy

Global Head
John Normand (44-20) 7325-5222

Global FX Strategy, New York

Gabriel De Kock (1-212) 834-4254
Kenneth Landon (1-212) 834-2391
Arindam Sandilya (1-212) 834-2304

FX & Commodity Technical Strategy
Niall O'Connor (1-212) 834-5108

Global FX Strategy, London

Paul Meggyesi (44-20) 7859-6714
Kamal Sharma (44-20) 7777-1729
Talis Bauer (44-20) 7777-5276

Emerging Markets FX Strategy
Robert Beange (44-20) 7777-3246

Global FX Strategy: Asia

Tohru Sasaki (81-3) 5570-7717
Junya Tanase (81-3) 5570-7718

Commodity Strategy

Head of Commodites Research
Lawrence Eagles (1-212) 834-8107
Global Energy Strategy
Scott Speaker (1-212) 834-3878
Shikha Chaturvedi (1-212) 834-3245
Mark Gravener (1-212) 834-3089
Sung Yoo (1-212) 834-7045
Kristi Jones (1-212) 834-2835

Global Metals Strategy
Michael Jansen (44-20) 7325-5882

Agricultural Commodity Strategy
Lewis Hagedorn (1-312) 325-6409

Commodity Index Research
Jennie Byun (44-20) 7777-0070